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## BROKEN CHINA: HANDLE WITH CARE

— Michael Auslin

At a dinner at the Halifax International Security Forum in 2013, a table of experts and interested participants, including former Australian Prime Minister Kevin Rudd, had a spirited discussion on an unconventional theme: “Peaking China.”

Even two years ago, the idea that China would not be forever rising was a fringe concept. It cut against the grain of thinking of both those who assumed China was the new economic superpower and those who saw its rise as a threat to continued peace and stability in Asia.

As with Japan during the heyday of its bubble in the 1980s, Western observers were all too eager to look past the looming problems facing China, and thus have been caught by surprise as it suddenly seems that the Chinese miracle is at risk, if not already ended.

China’s achievements since the beginning of Deng Xiaoping’s economic reforms in 1979 are undeniable. From an impoverished nation with a per capita GDP of barely US\$300 in that year, China by 2014 was the world’s second-largest economy in real terms, and the first in purchasing power parity terms, while its per capita GDP had skyrocketed to US\$7,600 (US\$12,700 in PPP). It has become an export juggernaut, and its major cities are as modern as their European counterparts.

Yet the days of China’s high-flying growth are over, and the world is now catching on to what the Halifax attendees discussed at that dinner: we may have witnessed ‘peak China,’ and the future likely will hold far more challenges for Beijing. China’s torrid GDP growth, for example, has slowed significantly, from double-digit gains in

the 2000s, down to 7.4 percent in 2014. While that would be the envy of all mature Western economies, it signals difficulties for a nation that is still developing, and which has barely reached middle-income status. Moreover, many economists don’t trust the official Chinese numbers, and some believe that the economy may already be stagnating.

Other indicators are similarly worrying. China has a massive debt problem, estimated at between US\$21-\$28 trillion, with hundreds of billions off the books and thus entirely unregulated. Productivity has slowed as the country’s longtime one-child policy is starting to create a labor shortage and as workers’ wages continue to rise (good news for labor, bad news for business). Whatever the truth of the economic picture, even senior Chinese officials now tell foreign visitors that what China is experiencing is not a bump in the road, but rather is the new normal.

Not all of China’s woes are economic, however. President Xi Jinping, who took office at the end of 2012, has quickly made himself the most powerful Chinese leader in a generation, and perhaps since Mao Zedong himself. Unlike his bland predecessors, Xi is cultivating what some consider to be a cult of personality; inside reports indicate that at top-level meetings, Xi does all the talking, dominating his colleagues. Some observers believe that Xi’s challenge to the Chinese Communist Party’s traditional collective leadership could lead to something approaching one-man rule.

Both Xi’s political opponents and society at large are feeling the effects of Xi’s strength. An anti-corruption campaign has swept through the Party, government, and business, designed in part to

sweep the Augean stables clean so as to restore public trust in the leadership, but also as a way to eliminate any challengers to Xi's power. Meanwhile, civil society is increasingly pinched, and arrests of political activists, lawyers, and the like have sent a chill throughout China, along with government efforts to clamp down on NGOs.

In foreign affairs, too, China may have 'peaked,' at least in terms of being considered a responsible great power. China has expanded its global reach and moved aggressively to defend its territorial claims in the South China Sea. Under Xi, it has built and militarized islands in the disputed Spratly Islands chain, and continues as well to harass Japanese forces near the Senkaku Islands in the East China Sea. When President Obama visited Alaska in September, three combat ships of the Chinese Navy lurked in the waters off the Alaskan coast.

The People's Liberation Army continues to receive double-digit budget increases, even as the economy slows down, and at a major military parade in September, to mark the end of World War II, the Chinese displayed their military might, including advanced intercontinental ballistic missiles to complement the aircraft carriers they are building. As for cyber, there is nary a major country whose business and governments have not been targeted by Chinese hackers, often with devastating results.

So where does the rest of the world stand with regard to China? The hopes of the past 40 years were that, as China developed and engaged with the rest of the world, it would become a cooperative great power. In terms of trade, China is no doubt vital to nearly every developed nation,

but the very necessity of maintaining good relations often trumps any response to Chinese provocation and assertiveness.

Only the United States, through its military presence in Asia and its alliances, is attempting to balance China's growing military, and then only indirectly. Europe and the rest of the world have too little ability to try and change Chinese behavior.

In truth, Xi Jinping and his trusted lieutenants alone will determine the path that China takes over the next decade. Whether it increases its repression at home or tries to divert attention from a stalling economy by foreign adventurism, every action will be taken with one goal in mind: to preserve the power of the CCP.

Accommodation by the Chinese is possible as a tactical response to risks that threaten power at home, but the fears of a paranoid and inflexible regime may well make navigating their growing problems an even more difficult task.

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