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Doug Bandow

October 21, 2022

China May Never Become a Superpower Doug Bandow October 20, 2022 China's President Xi Jinping opened the latest congress of the Chinese Communist Party with a strong defense of his record. Because of his program, an increasingly brutal crackdown on the slightest dissent, he said he had "ensured that the party will never change in quality, change its color, or change its flavor." In short, dictatorship now and forever. And he even claimed better is yet to come. Xi concluded his formal report to the CCP representatives: "The Party has made spectacular achievements through its great endeavors over the past century, and our new endeavors will surely lead to more spectacular achievements."

No doubt Xi, the most powerful Chinese leader next to Mao Zedong, believes the People's Republic of China will prevail. However, his triumphant expectations are premature. The CCP overestimates its position vis-à-vis the West, which could bring China grief. Certainly, the PRC has become a serious global power. However, it is important not to exaggerate its strength.

Although Beijing is a far more comprehensive power than the Soviet Union, the foundation of which proved to be clay, China's impressive national edifice is built on pot metal rather than iron. Beijing is a vulnerable, not-yet superpower. That doesn't mean its collapse is imminent. Challenges should not be ignored. Some analysts have spent years predicting the PRC's imminent demise. Today the issue of China's economic prognosis and that nation's capability for future mischief divides scholars even at the same institution.

Nevertheless, panic is the wrong reaction to Beijing's rise, especially since that response tends to encourage decidedly illiberal policies. For the PRC, slower growth appears inevitable, a recession is possible if not likely, and a jump to high-income status is not certain. A lengthy period of stagnation is seen as increasingly likely. Indeed, some analysts are less certain that the PRC is destined to generate a bigger economy than America.

Although China's remarkable growth after the post-Mao reforms reflected the release of enormous resources, both capital, and labor, inefficient state enterprises survived, in part because they provided politically important employment. As would be expected, they have remained a major economic drag. Now further reform, once promised by Xi, is unlikely: his government views parastatals as an essential tool for reasserting party control over economic actors. Commercial discrimination and abuse have turned many foreign investors against what was once seen as illimitable markets likely to yield inevitable profits. The Xi government's continuing rigid

COVID-lockdown policy, along with rising wages, Chinese government restrictions, and U.S. political pressure, also are encouraging businesses to rethink the PRC. Overall, U.S. investor confidence in China is at record lows.

Although there so far has been no exodus of firms from the PRC, they are less likely to make ambitious plans for the future. China is heavily indebted, a problem exacerbated by continuing COVID lockdowns. The latter also is exacerbating youth unemployment, the impact of which concerns families as well as young adults. An increasing number of disillusioned younger workers are adopting attitudes of "lying flat" and "let it rot," downgrading ambitions and reducing efforts. The New York Times interviewed a 25-year-old who was "among a small but growing group of Chinese who are looking to the exits as China's pandemic controls drag into their third year.

Many are middle-class or wealthy Shanghai residents who have been trapped for nearly two months by a citywide lockdown that has battered the economy and limited access to food and medicine. Some … have ties overseas and worry that China's door to the world is closing. Others are disheartened by heightened government censorship and surveillance, which the pandemic has aggravated." The PRC's property bubble is not new but is another significant economic weakness, one long promoted by Chinese government policy. Indeed, the country is notorious for its "ghost cities."

The ongoing crisis has greatly affected urban households, two-thirds of whose wealth is in property, and the middle class, as many property buyers pay mortgages on unfinished homes. Indeed, some buyers have joined mortgage strikes, further destabilizing the real estate market. This decline is likely to intensify.

Warned the Council on Foreign Relation's Brad Setser: "China's real estate crisis poses financial risks, but it is ultimately a crisis of economic growth. Since the development and construction of new property is estimated to drive over a quarter of the country's current economic activity, it is not difficult to see how a temporary downturn in the property market could promote a prolonged economic slump."

Analysts have even begun speculating on China's resemblance to Japan in the 1990s when a real estate collapse contributed to the infamous "lost decade." State banks, many already saddled with significant bad debts, are suffering as the real estate market slows. In fact, Chinese regulators have ordered banks to provide continued financing to troubled developers to complete ongoing projects, further undermining already overburdened financial institutions.

Even so, some in the Chinese government advocate additional interference with the financial sector to spur growth. Wang Yiming, an adviser with the People's Bank of China, argued that "Greater financial support is needed to develop commercial sustainability."

He added: "The original financial model of supporting traditional industry … needs to be adjusted to improve the ability to respond to the risk." Which ultimately would mean even greater losses. The much-hyped Belt and Road Initiative adds an international financial drain, with nearly $400 billion in lending to mostly developing states, many with authoritarian governments and statist economic policies.

Sri Lanka is only the most recent example of projects that look like a burden rather than benefit Beijing. Indeed, the PRC recently announced debt relief for 17 African countries. The biggest problem is the PRC's increasingly politicized economic policies. China's increase in total factor productivity has been falling since the 1990s, reducing prospects for future growth.

Yet the party has expanded and strengthened its controls within private firms. Officials are pressing to dramatically increase penalties for noncompliance by tech companies; one regulator declared that law enforcement needed to "grow very sharp teeth." The basic objective is to impose the regime's political objectives on the private sector.

The CCP's expanded reach was highlighted by the public humbling of Jack Ma, founder of Alibaba, and other entrepreneurial titans. Xi also is pressing for "common prosperity," or wealth redistribution, to defuse popular dissatisfaction with income inequality that has become so evident in a nominally socialist economy, even one "with Chinese characteristics." Experience suggests that the greater the state interference, the more harm to the economy. Economist Pranab Barnhan pointed to the essential threat: "The disadvantage for China follows from the lack of an open system that could encourage free spirit, critical thinking, challenging of incumbent organizations and methods, and diversity rather than conformity—these are necessary ingredients of many types of creative innovations.

The current system of state promotion and guidance of globally successful large private technological enterprises (Alibaba, Tencent, etc.) is worth examining from this point of view. On the one hand, the state wants them to be 'national champions', on the other hand, it does not want them to be autonomously powerful enough to be outside the ambit of its control, supervision, and surveillance." China also is heading over a demographic cliff.

The population has peaked, much earlier than once predicted. With a shrinking population, and a potential two-thirds reduction in working-age population by the end of the century, the PRC might not outstrip the U.S. economically. Still much poorer than America, China is rapidly growing older before it grows rich. That might become its permanent status. The PRC also is rapidly aging and suffers a dearth of women, as a result of the infamous "one-child policy," which encouraged rural dwellers to abort or kill baby girls.

As economic growth slows, it will become increasingly difficult for single children to support their parents and grandparents, and for China to meet the expenses of an older society. The PRC's compensatory policies, including an embarrassing call on CCP members to have three children, are unlikely to achieve much. Forbes columnist Milton Ezrati observed: "By 2040, according to UN estimates, the country will have seen a 10% drop in the absolute numbers in its working population, while its population of dependent retirees will have increased by some 50%. The economy will have barely three workers for each dependent adult. Those three workers will have to produce enough for their own consumption, those of their other dependents, and one-third of a retiree's needs.

The economy's flexibility will have all but disappeared, while limited human resources will constrain its ability to invest in the future." Chinese officials long have claimed that their system provides competent and flexible governance—at least after the end of Mao's mad, disruptive, and deadly reign. China's ambassador to America, Qin Gang, defended his nation's political system: "On matters concerning people's keen interests, there are broad-based and sufficient consultations and discussions before any decision is made.

Policies and measures can only be introduced when there is a consensus that they are what the people want and will serve the people's needs. It has been proved that the whole process democracy works in China and works very well." However, Xi's leadership style contradicts these purported advantages. He has eliminated almost anyone inclined to question his judgment. He centralized power in the national government, restricted the information flow, and discouraged local and provincial initiatives.

Earlier this year several scholars negatively assessed the impact of Chinese policy in testimony before the U.S.-China Economic and Security Review Commission. For instance, Victor Chung Shih of the University of San Diego predicted that "information manipulation by officials around [Xi] may lead to policy missteps." Jessica Teets of Middlebury College warned that "centralization has also resulted in reduced local discretion for policy experimentation, rigid policy implementation without local adaptation, and decreased morale among local officials," which has resulted in "the loss of long-term innovation and citizen engagement."

This system falls short in the international realm as well. Xi overvalues confrontation as a foreign policy tool. This failing is evident in both "Wolf Warrior" and COVID-19 diplomacy, which so far internationally have been busts. Moreover, as noted earlier, the PRC lacks allies and genuine friends.

After all, what other country believes in the principle of Han ethnic superiority? Trade/investment and BRI projects might gain temporary favor with some governments, but Beijing's determination to seize any advantage accrued has proved costly. Even the Tatmadaw, Myanmar's military, sought to escape the PRC's tight embrace when a decade ago it initiated its semi-democratic experiment, which terminated last year in a new coup.

Finally, though the PRC's governing process remains opaque, the continuing centralization of power in Beijing and the exaltation of Xi pose political risks. There already is a hint of potential discord—or at least concern—over the economic consequences of tighter economic regulation and COVID restrictions.

Internal discussions remain shrouded and Xi could be using others to deliver bad news. However, there is significant negative economic news, which could create political problems. Although claims of ongoing political challenges appear overblown, continued difficulties could undermine Xi's authority. Given his ubiquitous role, he cannot avoid responsibility for failure and has many enemies who will seek to take advantage of any misstep.

In fact, spurts of popular dissent suggest that at least some Chinese believe the CCP is failing at its essential task of providing both prosperity and security. Beijing-based writer Helen Gao recently observed: "The unusual eruptions of public rage are not just a result of the party's failure to keep up its side of the bargain; it is also the fact that much of the recent difficulties are the product of erratic, reckless party policies."

Although the regime's brutally repressive security apparatus prevents organized resistance, there is little reason to believe that the PRC's challenges will soon ease. Economic stagnation, imploding real estate values, and continued COVID crackdowns likely will further fuel widespread anger with unpredictable results. Of course, Chinese weakness does not preclude danger to other peoples and nations.

Some analysts contend that if the PRC has peaked—or, at least, come closest to reducing the distance to America—CCP paladins may be more likely to react aggressively and even militarily. This suggests something akin to what President Ronald Reagan called a "window of vulnerability" involving the Soviet Union. Ironically, this perspective offers greater long-term assurance for the U.S. and other relatively free societies.

That is, Beijing's opportunity for advantage may be limited and the CCP mainly poses a short-term problem. In any case, America should proceed with confidence, not fear, in the coming years as it competes with China.

Doug Bandow is a Senior Fellow at the Cato Institute. A former Special Assistant to President Ronald Reagan, he is author of Foreign Follies: America's New Global Empire. He is a 19FortyFive Contributing Editor.