

# FOREIGN AFFAIRS

MAY/JUNE 2024 • VOLUME 103 • NUMBER 3

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Its Toughest Challenger

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## America Can't Wish Away Its Toughest Challenger

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**E**ver since Chinese President Xi Jinping secured his third term in power in the fall of 2022, he has had a rough time. Shortly after his reappointment, street protests pushed him to abruptly abandon his signature “zero COVID” policy. After a quick reopening bump in early 2023, the economy has progressively slowed, revealing both cyclical and structural challenges. Investors are leaving in droves, with foreign direct investment and portfolio flows reaching record lows. Meanwhile, Xi has fired his handpicked ministers for defense and foreign affairs in the wake of allegations of corruption and worse. His military bungled its balloon intelligence-collection program, precipitating an unwanted crisis after a stray balloon floated over the continental United States for days in early 2023. And now Xi is conducting a historic purge of military and defense industry personnel linked to China’s missile forces. Amid all

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this, the United States has continued to expand its alliances with China's neighbors and countries outside the region.

These and other events have fueled the claim that China is stagnating, if not in permanent decline. Some scholars now argue that the world is witnessing "peak China" and that the country's accelerating decline may lead it to lash out. "Welcome to the age of 'peak China,'" wrote the political scientists Hal Brands and Michael Beckley in *Foreign Affairs* in 2021. "China is tracing an arc that often ends in tragedy: a dizzying rise followed by the specter of a hard fall." Commentators, including the author and investor Ruchir Sharma, have begun to speculate about a "post-China world." Even U.S. President Joe Biden got in the game, stating in August 2023 that China is a "ticking time bomb" that "doesn't have the same capacity that it had before."

These views are both ill advised and premature. Xi still believes China is rising, and he is acting accordingly. He is committed to achieving the "China Dream," his longtime slogan for national rejuvenation. He intends to reach this goal by 2049, the 100th anniversary of the founding of the People's Republic of China. If China is peaking, there is little evidence that Xi sees it. In fact, many Chinese elites, including Xi, believe it is the United States that is in terminal decline. For them, even if China is slowing down, the power gap between the countries is still narrowing in China's favor.

If Xi did have concerns, he is unlikely to share them internally out of fear that doing so would generate criticism or even opposition. His ambitions are so central to his legitimacy and to the credibility of the Chinese Communist Party (CCP) that there is little space or incentive to walk them back. Xi is hardly oblivious to China's recent problems. But as a committed Marxist-Leninist, he sees his country's rise not as a linear process but as one that will take time and require adjustments. In his view, the country's current difficulties are mere bumps along the road to achieving the China Dream.

Xi also believes that China's path to greatness will differ from those of the Western powers, especially the United States. He believes in a strong role for the state, limited and controlled use of the market and the private sector, and the centrality of technology that can drive productivity gains. He wants an economy that looks more like that of Germany, an advanced manufacturing powerhouse, than that of the United States, which relies heavily on consumption and services.

Xi's approach could work if he harnesses the right blend of state power and market forces, remains sufficiently open to global capital and

technology, and embraces policies that address some of China's biggest domestic problems, such as its declining and aging population. Xi's recent actions, however, do not inspire confidence in his ability or willingness to take these and other steps to avoid a stagnating economy. But if there is one lesson to be taken from the past 40 years, it is that the CCP and its management of the economy can often muddle through against the odds.

Moreover, the concept of peak China makes little sense in today's interconnected world, where states possess diverse sources of power and myriad ways to leverage them. Is Chinese power waning if its economy underperforms but its military modernizes and its diplomacy generates influence? China peaking economically is not the same as China peaking geopolitically—a distinction lost on many advocates of the peak China argument.

And even if China has reached some undefined upper limit of its power, influence, or economic growth, Chinese and American leaders probably would not realize it until years later. In the meantime, Beijing could still pose numerous problems for Washington and its friends and allies. And if it turns out that China's power is in decline, it can still use its substantial capabilities to undermine U.S. interests and values in Asia and all over the world. So regardless of whether the label is accurate, for Washington to adopt a belief in peak China—and base its policymaking on it—would be unwise and even dangerous.

#### THE STORY CHINA TELLS ITSELF

Since coming to power in 2013, Xi has been crystal clear about his beliefs about China's prospects and its future trajectory. He has grand ambitions for the country and a great sense of urgency. At home, he seeks to improve the legitimacy and efficacy of CCP rule, to remake the party-state system by reducing the role of the government and increasing the role of the party, and to rewire the Chinese economy so it is more self-sufficient and equitable. Abroad, he wants to reform global governance to better protect Chinese interests and to promote illiberal values such as expanded state control, constrained markets, and limits on individual freedoms.

Xi's plans are evident in both his public remarks and how the CCP talks to itself via state media, propaganda, and internal speeches. Xi remains committed to the idea that China still enjoys what he calls a "period of strategic opportunity." In March 2023, on a visit to Moscow, Xi said to Russian President Vladimir Putin, "Right now, there are changes—the likes of which we haven't seen for 100 years—and we are the ones driving these changes together." At a conference in December

on “foreign affairs work,” a meeting the CCP holds every five years, Xi explained that one of his main tasks is to “foster new dynamics in China’s relations with the world, and to raise China’s international influence, charisma, and shaping power to a new level.” Although Xi has openly acknowledged the “high winds and perilous, stormy seas” confronting China, he sees those risks as reasons not to pull back but to keep forging ahead, to push harder and faster.

The same narrative is prevalent throughout the party. The CCP’s official history of the last 100 years, released in 2021, stated that China is “closer to the center of the world stage than it has ever been” and that it “has never been closer to its own rebirth.” Xi’s current intelligence chief, Chen Yixin, gave a speech to CCP cadres in early 2021 in which he cataloged all the problems facing Western democracies and announced that “the East is rising, and the West is declining”—a phrase that has become something of a CCP slogan. Xi echoes this sentiment whenever he highlights the growing appeal of what he calls the “China solution” or “China’s wisdom.”

The CCP’s ambitions are propelled by a complex mix of victimhood, grievance, and entitlement. Like other Chinese leaders who have emerged from the CCP system, Xi was raised on tales of “the century of shame and humiliation” that China suffered under foreign domination. National security has emerged as an overriding priority, newly shaping a broad variety of policies, especially economic ones. Everywhere he looks, Xi sees threats to “divide and Westernize China” and the danger of “color revolutions.” His fears have only intensified in recent years, driving China closer to Russia and other illiberal powers. In his December speech to Chinese diplomats, Xi noted that “external forces have continuously escalated their suppression and containment against us.” This fearful posture explains why the CCP now casts economic development and national security as priorities of equal importance—a position that would make former Chinese leader Deng Xiaoping turn over in his grave given the overwhelming priority Deng put on growth and development.

#### ACTIONS SPEAK LOUDER THAN WORDS

Xi’s predecessors allowed the country’s State Council (the cabinet) and its provinces to play a greater role in policy formulation and implementation and provided the political space for market forces, private capital, and individual entrepreneurs to drive much of the country’s growth. To carry out his agenda, however, Xi has taken steps to put the CCP at the center of political, economic, and social life in China. With barely a hint of internal



pushback, he secured a third term, positioned his confidants in top jobs, and marginalized and embarrassed his predecessor, Hu Jintao. (During the closing ceremony of the National Congress of the CCP in October 2022, the elderly Hu was removed from his seat on the dais and escorted offstage.) The sudden death of Premier Li Keqiang last fall has left Xi with no rivals within the party. Unlike Deng, Xi doesn't have to put up with a group of elders carping behind the scenes.

To further consolidate his political power and advance his policy goals, Xi has carried out an aggressive, decadelong anticorruption campaign, which today remains as intense as ever. The 2023 ouster of the ministers of defense and foreign affairs, who were both nominally close to Xi, should be read not as a sign of his weakness but of his strength and determination. He removed them summarily and with no apparent drama. His current purge of military and defense industry officials linked to China's cherished strategic rocket forces—more than a dozen men and counting—reflects his confidence in his position and his commitment to modernize the military.

Xi's expansive view of national security involves a high degree of political monitoring and repression, which remain the CCP's key tools for realizing Xi's vision of a new party-state system. He has empowered his security services, aided by dystopian uses of surveillance technology, to eliminate any hint of dissent, to quiet restive minorities in Xinjiang and Tibet, and even to help implement economic directives, such as by



harassing foreign consulting firms collecting sensitive information. In a first for China, the country's civilian spy agency, the Ministry of State Security, now operates an active WeChat account, where the office publicly comments on numerous hot-button issues, including U.S.-Chinese relations and alleged foreign spy operations.

Despite economic headwinds and slowing growth, Xi is driving forward, not struggling with indecision, as suggested by peak China advocates. He wants to rewire the Chinese economy so that it relies less on exports and investment in real estate and infrastructure and more on technology and advanced manufacturing to generate growth. That's why he is investing so much in clean energy technology, electric vehicles, and batteries, which some China watchers are calling "the new three" drivers of growth. (The "old three" are property, infrastructure, and processing trade.) Xi believes that shrinking the overheated property sector has been a painful but necessary step in reallocating capital to achieve economic transformation.

In truth, Xi is not merely comfortable with the current economic underperformance—he is actively promoting it. This is one of the main reasons the stimulus to date has been so modest. For him, the economy is simply suffering growing pains as it becomes stronger and more sustainable. To be sure, that belief raises the question of whether Xi is receiving reliable information about the depth of the structural and cyclical challenges weighing on the Chinese economy. Nonetheless, Xi has embraced austerity and tried to revive the spirit of sacrifice, self-reliance, and egalitarianism that characterized earlier eras of Maoist rule—for example, encouraging recent university graduates to relocate to the countryside instead of staying in cities to make their careers.

Many of Xi's policies have been poorly conceived and implemented. But that partly reflects the fact that he is trying to balance multiple and often contradictory objectives and his decision-making is too centralized. But it is critical to understand that Xi and other CCP leaders don't see their country as declining. Instead, they see themselves as making hard choices to restructure the economy so that China can propel itself toward its modernization goals.

#### GO BIG OR GO HOME

Xi sees China as ascendant globally and believes that now is the time to push for an even bigger role on the world stage. He is persisting with the Belt and Road Initiative, Beijing's enormous infrastructure

and investment program, despite frequent financial losses that often generated local backlash. In 2023, China succeeded in expanding the BRICS (a bloc of major emerging economies named after its initial members: Brazil, Russia, India, China, and South Africa), adding five new countries. This is part of Xi's effort to provide an alternative to the West and its rules-based liberal international order. Xi is backing Putin in his war in Ukraine, helping him rebuild Russia's defense industry and civilian economy. China is carefully navigating wars in Europe and the Middle East, avoiding Western sanctions and eschewing responsibility, all while maintaining influence in both regions.

Xi now proudly promotes a somewhat inchoate tripartite vision of global order that seeks to challenge U.S. dominance and Western rules and norms. In the last two years, he has announced the Global Security Initiative, the Global Development Initiative, and the Global Civilization Initiative. Xi's goal is to make China the central actor in a transformed international system that is less liberal and less rules-based and that accedes to Chinese preferences, especially on priority items such as Taiwan, territorial disputes, and human rights. Xi is actively recruiting countries to adopt this anti-Western vision, which is the impetus behind the BRICS expansion and joint efforts with Brazil, Russia, and others to try to reduce the global influence of the U.S. dollar.

When Xi has faced headwinds, his policy pullback has been minimal, and the adjustments have been narrow and targeted. He abandoned zero COVID virtually overnight without any kind of new vaccination program, resulting in thousands of deaths yet no political or social repercussions. The removal of the defense and foreign ministers last year did not disrupt either ministry. After being halted by the spy balloon crisis, U.S.-Chinese diplomatic and military talks are back on track. Despite the upheaval in the Chinese military's strategic rocket forces, Xi's plans to quadruple China's nuclear forces continue and could fundamentally alter U.S.-Chinese relations.

On the economy, Xi reluctantly adopted more fiscal stimulus, including steps to boost consumption, but nothing close to the kind of "big bang" moves that would derail his vision of China becoming an advanced manufacturing superpower. As he shrinks the property sector and pushes state-directed investment strategies, Xi has remained indifferent to the sentiments of foreign investors who push for more stimulus and structural reforms. The Chinese government's effort to rescue the country's tanking stock market—by buying stocks—is just



the latest example of Xi's commitment to state-led development. His modest responses to some of China's biggest structural problems, such as its deeply indebted provinces and its growing demographic deficit, are worrisome. Still, there are policies he could adopt to address those problems; he just hasn't done so yet.

After a particularly difficult period brought about by the COVID-19 pandemic and the war in Ukraine, Xi has stabilized his key relationships, including with the United States, the United Kingdom, and Australia. But he has not given away much to do so. China continues to thread the needle on Russia: it is boosting Russia's military capabilities with dual-use exports and helping to prop up its economy while avoiding large-scale U.S. sanctions. And China remains a dominant economic and diplomatic force in many parts of the world. So far, Xi has made only tactical adjustments—a tried and tested CCP approach to justify policy moves without being distracted from long-term goals.

#### IT'S NOT JUST THE ECONOMY, STUPID

Beyond ignoring Xi's clear commitment to China's rise, embracing the idea of peak China is problematic for additional reasons. First, it is difficult to measure and understand what peak China means in practice. Is it an absolute term or a relative one—and if the latter, relative to what? It is unclear whether the term takes into account U.S. power or Xi's perception of it. Perhaps China's leaders are not worried about whether their country is peaking because they believe the gap with the United States will keep closing, even if at a slower pace.

Also, China could peak in one area but advance in others, complicating the calculation. Proponents of the argument that China is now in decline point primarily to its economy. Yet as the economy slows (which is partially by design), China retains other sources of power and influence. The bottom line is that China will remain a global power even as its economy underperforms. It remains the world's largest exporter and creditor and is the second most populous country. It is also the center of innovation for some of the most important emerging industries, such as batteries and electric vehicles. It still produces or refines well over half the world's critical minerals. China possesses one of the largest and most advanced militaries in the world, with expeditionary capabilities and a growing overseas footprint. It is in the process of expanding its nuclear arsenal, supplementing it with conventional intercontinental ballistic missiles

and advanced hypersonic missiles. The military may also be moving to a more aggressive “launch on warning” nuclear weapons posture.

In terms of its diplomatic strength, China is at the center of global politics, with a seat at the table during every crisis. Xi has deftly used China’s investments in infrastructure abroad to create a network of economic ties that generate geopolitical influence. China’s incipient alignment with Iran, North Korea, and Russia could determine the future of global stability. On almost every transnational challenge, Beijing can both contribute to progress and disrupt it, a position that it deftly leverages to advance its interests and avoid unwanted burdens.

With the second-largest economy in the world in terms of GDP and deep ties to countries all over the world, Xi may make meaningful progress in shaping global rules and norms and undermining U.S. influence even as China’s economy slows. Chinese narratives about history and contemporary geopolitics resonate in the developing world, and Beijing is only getting better at promoting them. In short, either China is not peaking—or the idea of peak China doesn’t explain much about the challenges posed by China in the twenty-first century.

Instead of projecting the West’s fears and hopes onto China, Western officials must try to understand how China’s leaders perceive their country and their own ambitions. The idea of peak China only confuses the debate in the United States. It leads some to argue that China’s weaknesses are the problem and others to suggest that China’s strengths pose the biggest risks. Each side crafts convoluted policy proposals based on these assumptions. But seeing China through this simple lens ignores the fact that even a stagnant China can cause serious problems for Washington, economically and strategically.

Such a confused debate distracts from the efforts needed to allocate resources to what is a much more complex competition with China. U.S. policymakers still need to determine where and how to compete with China and, equally important, what risks they are willing to take and what costs they are willing to pay. Today, these foundational questions remain unanswered, and they could become far more dire for U.S. leaders if mishandled now. If the war in Ukraine has reminded us of anything about U.S. strategy, it is that both clarity of purpose and political consensus are needed. On China, the biggest risk today is not that China’s rise will fade away (and Washington will have overreacted). Instead, it is the possibility that the United States will fail to build and sustain support for a long-term competition across all dimensions of power. 🌐