

BEYOND COLOSSUS OR COLLAPSE: FIVE MYTHS DRIVING AMERICAN DEBATES ABOUT CHINA

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COMMENTARY

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The high-level meeting in Alaska this week between top American and Chinese national security officials is pivotal. Indeed, historians may look back on it as decisive. This is not just the first meeting following President Donald Trump's departure and President Joe Biden's arrival, but it may herald the arrival of a new era of U.S.-Chinese dynamics, defined by persistent and consistent friction, volatility, and distrust.

Whereas past presidential transitions offered both sides a chance to redefine the terms of relations, the Biden team jumped into the deep end of the pool — head first. It immediately framed U.S.-Chinese relations as a “strategic competition,” with the president at one point calling it “extreme competition.” At the same time, administration officials have talked about avoiding a new Cold War, suggesting support for a strategy of competition and coexistence, previously advocated by national security adviser Jake Sullivan and the National Security Council’s coordinator for the Indo-Pacific, Kurt Campbell.

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The central China policy challenge facing the Biden administration is this: how to build and sustain a political consensus — both at home and abroad — for a balanced approach of competition without catastrophe. This is no easy task. The American public’s views of China are at historic lows, undermining support for stable relations. While Congress displays broad consensus in favor of a more competitive approach, China policy has also become deeply partisan. U.S. allies and partners, both in Europe and Asia, hold a diversity of views about Beijing. And China isn’t standing still, but rather adopting policies to blunt — or circumvent — U.S. power.

As American policymakers seek to navigate the debates at home and abroad, a critical challenge will be ensuring these discussions are based on sound analytical judgments about China and U.S.-Chinese dynamics. We are concerned about five myths that have become common in the United States, all of which deserve closer scrutiny as the Biden administration refines its China strategy: First, that China’s economy is on the precipice of collapse, or conversely, is a juggernaut. Second, that Beijing can effectively plan the country’s future out several decades. Third, that Xi

Jinping is preparing an imminent invasion of Taiwan. Fourth, that Beijing will engage in military adventurism to distract from domestic crisis. And, finally, that the U.S. policy of engagement was a total failure.

China's Economy: Neither Colossus nor Collapsing

First, the Chinese economy is neither barreling toward global supremacy nor rapidly declining to the point of eventual collapse. U.S. debates consistently frame China's economic future in extreme terms — collapse or colossus — but experts can't seem to decide on which one, fueling a bevy of competing policy options.

The best way to look at the Chinese economy is to acknowledge its large size and consistent growth, while also recognizing that it faces both immediate and structural challenges. Beijing is essentially a vibrant and active middle-age person who confronts the risk of both a heart attack and cancer at the same time.

Crucially, however, Beijing's actions in recent years indicate it has the resources and toolkit to manage these risks, or at least to push them off into the future. Financial risk, which is arguably the most likely catalyst for a crisis, is mitigated by the strong balance sheets of state-owned banks, a heavily managed capital account, and ample liquidity provisions by the central bank. Structural challenges, like China's shrinking workforce and aging population, will constrain China, but the leadership hopes to grow — or innovate — out of them.

Chinese policymakers have thus far managed these risks by doing four hard things simultaneously: rebalance from the old growth drivers of exports and investment to consumption and services; move up the manufacturing value chain by investing in technology and pursuing an ambitious decarbonization agenda to boost the green economy; reduce accumulating financial vulnerabilities, even as they slowly open the financial system and further develop capital markets; and retain a floor under economic output to ensure employment growth and rising living standards.

Beijing has been able to maintain this delicate balance in large part due to its ability to proactively identify and address the most immediate risks, to set priorities, and then mobilize resources to address problems. Of course, the consistent growth of the economy — which notably outperformed all others in 2020 — makes managing all of these easier.

Whether Beijing can successfully maintain this steady state is the 64,000 renminbi question. Xi has turned his back on the broad logic of market reforms, and the efficacy of his more statist growth model won't be proved one way or the other for several years. In the meantime, policymakers have to contend with an aging population and shrinking workforce, a private sector contending with the reassertion of the state, and an international environment that is increasingly wary of Chinese investment. All of this while Beijing pushes for the country to become dominant *and* self-reliant in a range of key technologies, from semiconductors to artificial intelligence.

Looking at the challenges Beijing faces in the next decade, a far more realistic scenario than collapse — or a surge ahead — is for China to continue a prolonged period of muddling through. This would be characterized by growth settling into the low single digits, as Xi's statist policies put downward pressure on productivity gains and policymakers contend with an aging society and a shrinking workforce. China will continue to be an important global player given its sheer scale, but much of its great power economic luster may fade away.

Central Planning Versus Central Execution

A second myth is that China has a grand plan for its future out to 2049 and one that will virtually guarantee its status as a great power. The reality is far more modest.

If there is one thing the Chinese Communist Party is good at, it's churning out plans. There are five-year economic plans, industry plans, provincial plans, plans for the development of specific technologies, plans for modernizing the military,

and if Xi's 2017 speech at the last big party conclave is to be taken at face value, there is a plan to guide the country's development through 2049.

However, formulating plans and implementing plans, especially over long time horizons, are two very different things. And while it's true that China's authoritarian system undoubtedly gives it an edge over democratic market economies in defining goals and channeling resources toward them, the output of Beijing's thicket of market-based and planned moves is often policy errors, local discontent, bad investments, and growing foreign opposition — from countries and companies — to Beijing's policies. China's leaders have been able to absorb these inefficiencies — especially the bad investments — in large part due to China's growth momentum and Xi's political control. But, going forward, it is very doubtful absorbing and ignoring these inefficiencies can be sustained for too much longer.

Almost all of China's plans “succeed” in the sense that Beijing never admits defeat, but it's hard to rectify the idea of effectiveness of multigenerational planning with the overwhelming evidence of capital miscoordination, bureaucratic infighting, resource siphoning, overcapacity, and “white elephant” infrastructure projects that are part and parcel of China's actual, existing political economy. If planning the present is so difficult, how is Beijing supposed to plan the economy's trajectory out several decades?

None of this is meant to deny the diversity of challenges China presents to the United States today — economically, technologically, or militarily. China's accomplishments in all three arenas have been impressive, and the United States needs to do far better at competing in these arenas. Rather, our point is that Xi's plans are increasingly ambitious and reflect risky bets, and China's ability to absorb future mistakes is probably declining. As Tom Fingar and Jean Oi of Stanford University argue, “China's future is neither inevitable nor immutable.”

That said, it is also worth keeping in mind that China doesn't need to fully "succeed" in any of its big endeavors for the global ripple effects to be significant. Even partial success — or partial failure — can fundamentally change entire global industries and supply chains, for better or worse. Even China as "a partial power," as David Shambaugh described it, will change the world.

Taiwan Timelines

Third, there are as many myths about China's external behavior as there are about its domestic policy. One of the most common is: Xi is deeply nervous about Taiwan's future and is set to invade Taiwan in the next two to three years. In fact, former national security adviser H.R. McMaster suggested this in recent testimony before the Senate Armed Services Committee.

This is a misreading of China's calculus toward Taiwan and the current situation in cross-strait relations. China's top leaders have long viewed the Taiwan problem as fundamentally a political problem, not a military one. Their consistent preference has been, first and foremost, to deter independence rather than to compel unification by force. They have deployed a mix of coercion and incentives to do so, and recent military activities around Taiwan reflect this.

Beijing's strong preference is to create a situation in which the people of Taiwan and their leaders recognize their future is inevitably tied with the mainland, and then negotiate a reunification deal on Beijing's terms. The Xi administration's undermining of Hong Kong's political and legal autonomy serves only to make Taiwan more resistant to Beijing's overtures. This means Beijing will need to rely even more on coercion and political warfare to achieve its goal of reunification. This reality, more so than armed conflict, is the near-term challenge U.S. policymakers need to be focused on.

Even in the context of rising cross-Strait tensions, there is little evidence that Xi is uniquely anxious about Taiwan now and preparing an all-out invasion of Taiwan in the next two to three years. All Chinese leaders have to talk tough, and Xi is no

exception. But he has never set a clear deadline. The closest he came was in a January 2019 speech linking the achievement of “national rejuvenation” with Taiwan reunification. The timetable for rejuvenation is still some 30 years off in 2049 (when Xi would be 96). This sounds more like political posturing by Xi within CCP circles than formal planning. Most recently, last week’s annual meeting of the National People’s Congress did not signal any urgency and instead used stock language on Taiwan, which is unlike last year when comments by senior leaders hinted at a questioning or even a movement away from “peaceful reunification” as a goal.

Invading Taiwan remains an extraordinarily risky and costly action and, in the next two to three years, it would come at a crucial time for Xi’s big domestic agenda. It is the one move that could short-circuit Xi’s vision of national rejuvenation – any military action short of complete victory would be a loss. Even if an invasion succeeded, China would then have to occupy Taiwan and seek to pacify its 24 million citizens, gutting Taiwan’s economy in the process, including its strategically significant high-tech sector.

Whereas experts continue to debate whether China has the military capability in the next few years to invade fully and occupy Taiwan, there is broad agreement that the People’s Liberation Army has made substantial strides in developing a wide range of capabilities *across the spectrum of conflict* that it lacked in the last crisis in 1995 and 1996. Whether China possesses the ability for a military invasion or is close to it, the risk calculus remains complex — major military action will be far from a “no-brainer.” The U.S. military is increasingly focused on improving warfighting capabilities in East Asia, including doing much more with its Asian allies. All of this will enhance deterrence.

The most immediate challenge for U.S. policymakers is China’s coercion strategy, which seeks to shape outcomes in Taiwan by means short of outright aggression. While many of Beijing’s recent efforts to affect Taiwan’s domestic political environment have backfired, Taiwan’s people, as well as its political, economic, and

military institutions, are nonetheless coming under increasing stress. Washington needs to be attentive to a loss of confidence by the people of Taiwan in their future, or a loss of faith in U.S. reliability, producing a resignation that their future is with the mainland. In response, Washington needs to do more to enhance Taiwan's resilience and diversification in the face of these pressures.

Wag the Dog?

A fourth and related myth is that if China's economy slows and domestic challenges accumulate, then Xi will lash out and start a war, perhaps over Taiwan. This notion is inconsistent with China's current political realities or its longstanding strategic calculus about external aggression.

As the cliché holds, the Chinese Communist Party's first priority is the preservation of power, and the surest way to aggravate political instability over a slowing economy would be to prioritize a military action that would further deplete scarce resources and increase foreign pressure on China. For Xi personally, the surest way to undermine his grand ambitions would be to risk a war at the expense of domestic prosperity and with mixed popular support. Xi clearly has a higher risk tolerance than previous leaders, but there is no evidence that he is reckless.

More realistically, social discontent and economic malaise within China would bury the Chinese Communist Party senior leadership in domestic burdens, likely at the exclusion of foreign policy. Overseas lending would likely shrivel up, and Chinese corporates would find it even more difficult to invest abroad. As we saw in the early days of the most recent domestic crisis, the COVID-19 outbreak in 2020, Chinese foreign policy became focused on using diplomacy to generate foreign support — indeed, accolades and praise — to bolster a beleaguered Chinese Communist Party leadership.

Historically, China's leaders have sought to reduce external risk during periods of domestic turmoil. Mao Zedong and Deng Xiaoping pursued resolution of border disputes when they faced challenges at home, such as after the Great Leap Forward in the late 1950s, the nationwide protests in the spring of 1989, and the collapse of the Soviet Union in the early 1990s. China's more assertive foreign policy has coincided with periods in which Beijing has felt confident and assured at home, not weak and vulnerable.

Reports of Engagement's Demise ...

A fifth and final myth at the heart of U.S. debates is that the past U.S. policy of engagement was a complete failure, based on a naive hope that China would reform politically and economically. This is a distortion of both the previous U.S. approach and current challenges from China.

U.S. strategy toward China has not been based solely on engagement for over 25 years. Beginning in the mid-to-late 1990s, U.S. strategists began recognizing the downside risks of China's economic and military power, and policymakers responded accordingly. This began with the Nye Initiative in the mid-1990s to revitalize the U.S.-Japanese alliance. Since then, U.S. policy has been a mix of engaging China to shape its views, but also hedging the risks of a stronger and recalcitrant China. President Barack Obama's "Asia Pivot" strategy was a clear expression of this dual track approach, including with targeted investments in military capabilities and pulling allies closer.

Moreover, America's engagement policies — dialogue, cultural exchanges, etc. — were not based on a naive certainty that China would liberalize politically and economically. Certainly, one can find rosy public statements linking engagement with Chinese reform, but it's revisionist to claim that this was the foundation for U.S. policy and strategy. Successive U.S. presidents — Republican and Democratic — believed, rightly, that the best strategic bet for the United States was to try to shape China to be more open at home and responsible abroad, and then adjust its

strategy if that reality did not materialize. Xi made clear that such changes were not going to occur, and U.S. policy has been adjusting ever since. The nature and scope of those adjustments are the subject of current debates.

The outright rejection of engagement as one policy tool, within a broader toolkit, to shape China also ignores the debates it prompted within China. Throughout much of the 1980s and 1990s, both liberal reformists and more conservative authoritarians battled over the future direction of the country.

Finally, engagement itself remains essential to the success of more competitive strategies and policies. The United States needs its allies and partners to effectively compete with China, but none of those countries — in both Europe and Asia — wants to be drawn into a Cold War or be forced to make stark choices between one side or the other. Washington needs engagement and dialogue to reassure both China and America's allies that while the United States will defend its interests, it also wants to bound competition, reduce mistrust, and remain open to cooperation.

Thus, by pursuing such tools of engagement, the United States can forge stronger and more enduring coalitions to compete with China on those issues, such as technology and global governance, that require collective action. What's more, unless one is prepared to advocate the complete and total isolation of China, including a full decoupling from its economy, then really what is being debated is how much engagement to pursue and in what circumstances.

Breaking Myths, Making Policy

As the United States and China enter this new era of intense and diverse strategic competition, the American debate about the nature and scope of the China challenge is seminal. Dispensing with these five myths is a first step to setting the empirical foundation for a more informed debate about China strategy and U.S.-Chinese relations as this new era unfolds.

U.S.-Chinese ties today have a feel of the early stage of the Cold War: Perceptions are hardening fast but neither Washington nor Beijing has fully developed its goals, means, or mechanisms for this long-term competition. One critical difference from that era is that the United States knows far more about China today than it did about Moscow back then. Yet, like in the 1940s, U.S. judgements are now subject to intense political pressures. In such a context, the critical task for American leaders and strategists is to right-size the China challenge to ensure that American strategy and policies are based on neither its worst fears nor its naive hopes.

Based on these and other well-informed assessments of Chinese capabilities and its calculus, U.S. strategy needs to reflect an evolving mixture of security balancing, institutional binding, and dialogue and engagement. U.S. strategy toward China needs to do a better job of connecting the problem and the solution and rejecting a “one size fits all” approach driven by generic ideas like competition, pushback, or regime change. While there is consensus that the United States needs to make deep investments in its own domestic capabilities, there should be a more vigorous debate about where — and how — it confronts and competes with China internationally. Some highly competitive policies will be needed to blunt and degrade Chinese capabilities, such as in the military and cyber realms. In other domains, U.S. strategy should focus on deterring coercion and aggression, delimiting options, and, where possible, shaping China’s choices. Yet at the same time, dialogue and engagement are essential to managing competition and preventing crises, while also ensuring strong and consistent international support for such a variegated strategy.

Regardless of where one comes down on the precise mix of policies that the United States and its allies should adopt, the first step is for debate to be based on a clear-eyed assessment of China that rejects popular myths and accepts unpopular

realities about the country's capabilities, intentions, strengths and weaknesses. Tilting at windmills is not now, nor has it ever been, the appropriate foundation for good strategy.

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