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China's Challenges: Now It Gets Much Harder

Some years ago, one of us had a running partner who wanted a bigger challenge than the dozens of marathons he had completed. When asked to describe his first 50-mile race, he replied, "The first 30 miles weren't bad, but after that it got really hard." China is approaching the metaphorical 30-mile mark in its developmental marathon. The challenges it encountered and managed effectively during the past 40 years were not easy, but they pale in comparison to those looming on the horizon. The way ahead will be more difficult, less predictable, and highly contingent on the content and efficacy of complex policy choices. The easy phases of China's quest for wealth and power are over.

We begin with this cautionary note because so much of the new narrative about China's rise posits capabilities and evolutionary trajectories that we find implausible. That China has done well in the past does not assure that it will do equally well (or better) in the future. That the Leninist party-state system adopted in the 1950s has proven sufficiently agile to manage the easier phases of modernization does not assure that it will be equally adept at meeting the more difficult challenges of a country being transformed by past successes and demographic change. The number, magnitude, and complexity of these challenges do not foreordain that China will stagnate, fail, or fall apart, but

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they do raise serious questions about the putative inevitability of China's continued rise and displacement of the United States. China's future is neither inevitable nor immutable; its further evolution will be shaped by internal economic and social developments, the international system, and, above all, the policy choices of party leaders facing a daunting array of difficult challenges.

Back to the Future

Material benefits and, as importantly, expectations that opportunities and living standards would continue to improve have bolstered public confidence in the regime and support for the system. The prospect of continued improvement has mitigated dissatisfaction with corruption, constraints on individual freedom, and inequities. Opinion surveys have regularly found higher levels of support for the system than in more developed and more democratic countries.¹ Thus far, China's new middle class has eschewed demands for greater accountability and a voice in shaping policy because it benefitted from regime actions and has feared instability more than it has feared the consequences of autocratic rule. Whether this pattern will continue as growth slows is far from certain.²

The development strategy adopted by Beijing in 1978 envisioned a cautious, step-by-step approach to reform ("crossing the river by feeling for the stones"). The basic idea was to begin by taking small steps that kept China within the ideological umbrella of socialism and entailed low political risk but promised to produce quick results, teach lessons, build confidence, and sustain momentum. The metaphor "growing out of the plan" captures the spirit of the early reforms.³ The approach was to preserve the old while developing new institutions and anticipating that progress would make the old institutions less important or obsolete. Limited and politically palatable reforms helped to

Making easy reforms early on inevitably deferred those that entail a higher risk of failure.

mitigate cadre concerns about a retreat from socialism and citizen fears of Maoist-style revolutionary change. These reforms not only did not threaten cadre power but also kept them firmly in control, with the opportunity to lead reforms that would allow themselves and those under them to get ahead.

The strategy of minimal change in core institutions while utilizing repurposed structures and procedures was very successful. Party leaders were able to boast about sustained high rates of growth, strong public support for the regime, and China's near-universal recognition as an emerging superpower. However, making easy and low-risk reforms early on inevitably

deferred those that entail a higher risk of failure or unintended consequences. After four decades, the costs of taking the easy way out have become apparent—all tasks remaining on Beijing's to-do list are complex and consequential.

Logical next step reforms would have required fundamental institutional changes, including deep reform of state-owned enterprises (SOEs) that would allow greater scope for the private sector; genuine (and overdue) opening of the country to foreign investment and influences; and an independent judiciary and rule of law. But those reforms would directly challenge core tenets of China's socialist system and diminish party pre-eminence. Fear that slower growth, frustrated expectations, and growing demands from the public would both jeopardize further growth and regime legitimacy likely contributed to the decision to defer those reforms.

Whether by choice or from the fallout of the global economic crisis, reform—and growth—slowed. Beijing has rolled back earlier reforms and tightened central government control in a pattern that we describe as “back to the future” with Chinese characteristics. Others describe the new model as authoritarian capitalism. Whatever the precise mix of motivations, the result increasingly resembles the Stalinist system adopted in the early 1950s. Illustrative elements of this system include a new grand steering model with increased reliance on central guidance of the economy and SOEs (to the detriment of the far more productive private sector), industrial policies that constrain space for entrepreneurial activity,⁴ and constraints on local officials that threaten to stifle the kinds of local initiative critical to past success.⁵

We refer to China's current approach as “back to the future” because it seeks to resuscitate institutions, methods, and rationales adopted in the 1950s and shelved during the period of reform and rapid modernization. We do not know why party leaders decided that it is in their—and thus China's—interest to curtail or reverse policies that facilitated sustained growth and rapid improvement of living standards and China's international image, but we speculate that they hope doing so will buy time before incurring the risks (and for the elite, the costs) of fundamental reform.

Beijing has announced a number of ambitious goals such as moving into the ranks of highly developed countries by the centenary of the PRC in 2049, achieving global preeminence in key technologies like robotics and artificial intelligence, providing urban social benefits to most citizens, and building a number of green megacities. The likelihood of achieving all of the proclaimed goals is nil, but China will make substantial progress on some of them. It is impossible to predict which will succeed, which will fail, and which will

China is likely to be less prosperous and less powerful than predicted by the predominant narrative.

flounder, but we can anticipate a mix of all three outcomes. Whatever the precise mix, it is likely to produce a China that is less prosperous and less powerful than predicted by the predominant narrative about where China is headed. Whether China's leaders will risk tackling the difficult reforms that remain or continue to embrace key and thus far counterproductive structures and methods from the past remains to be seen. Whether the party-state system can maintain acceptable levels of growth and public satisfaction under the new conditions is also uncertain. The only certainty is that China can no longer ride the wave that helped along its economic growth and resultant capabilities for at least eleven reasons.

Daunting Challenges

China sustained double-digit or near double-digit growth from 1982 to 2011. But that era of miracle growth is over. The current official growth figure is 6.1 percent, but it could actually be lower and is almost universally predicted to drop to 3–4 percent (or lower) in the next few years.⁶ China's run was a bit longer than the comparable growth of Japan, Taiwan, and South Korea, but China started from a lower base thanks to the calamitous policies of the Maoist era. More importantly, unlike the four Asian Tigers (Hong Kong, Singapore, South Korea, and Taiwan), China's growth rate began to fall before its per capita GDP had reached the level of high-income countries.⁷ Whether its size and system will enable China to move from a middle- to a high-income country, thus escaping the middle-income trap that few countries have managed to avoid, remains to be seen.⁸ After four decades of high growth, China's per capita GDP in 2018 was US\$9,771, which is still below the world average of US\$11,312 and roughly equal to that of Mexico at US\$9,673.⁹

China's accomplishments over the past four decades are impressive by any standard, but they were achieved in highly favorable conditions that no longer exist. In the international context, those conditions included strong US support for China's modernization, the eagerness of West European countries and Japan to forge economic ties with the world's largest developing country, the absence of economic competition from other developing countries, and abundant money for direct foreign investment. On the domestic front, China drew on its demographic dividend that yielded a

vast reserve of low-skilled workers who moved from the countryside to fill low-wage jobs and added almost 400 million people to the workforce. Politically, there was strong consensus among party leaders that China must do everything necessary to modernize its economy as quickly as possible and, unlike the Soviet Union, there were no entrenched elites capable of blocking reform.¹⁰ After 40 years, every one of these favorable conditions has diminished or vanished.¹¹

Loss of International Comparative Advantage

US and Western enthusiasm for China's rise was catalyzed by worry about the Soviet Union and conviction that a more open and prosperous China would create economic opportunities for foreign firms and multiple constituencies in their own countries. This hope made the most developed countries in the world willing, and even eager, to assist China's quest for rapid economic growth. A more modern China would be a stronger partner in the seemingly endless Cold War, and a more prosperous China would purchase more and higher quality goods from Free World firms.

But the Soviet Union has been consigned to the dustbin of history, and China is now widely seen as more problem than partner.¹² Dozens of developing countries are now eager to displace China as the source of low-cost, low-skill labor. China has lost its decades-long strategic and economic uniqueness and is quickly losing comparative advantages that facilitated sustained growth. The IT revolution and globalized production chains have made it possible for many other countries to emulate China's export-led strategy of development, and even Chinese firms are moving abroad to take advantage of lower production costs.¹³

The demographic dividend that facilitated China's rapid rise is over.

Slowed Population Growth and Human Capital Deficit

Changes in the domestic arena are even more numerous and challenging. The demographic dividend that facilitated China's rapid rise is over. Population growth accounts for 2 to 3 percent of GDP growth during the last 40 years, but China's population is no longer growing and will soon begin to decline.¹⁴ Hundreds of millions of people have already moved from farms to more productive factory jobs. China has reached the so-called Lewis Turning Point beyond which gains must come from improvements to human capital rather than increases in the number of workers. What worked well in the past will not be possible in the future.¹⁵

China's miracle
growth ended
before it became a
high-income
country.

The supply of low-skill labor able to move quickly into more productive low-skill industrial and service sector jobs has plateaued, and the number of such jobs is decreasing.¹⁶ It will decrease further as China makes progress toward its goal of becoming a high-income country with a more technologically advanced economy. Future jobs will require better-educated workers. Yet, half of the country's future workforce will come from rural areas where few students currently go beyond middle school and, according to recent studies, almost half are learning impaired because of early childhood nutrition and nurturing deficiencies.¹⁷

China can (and probably will) build more schools and mandate more years of schooling, but training teachers and persuading them to remain in rural areas, convincing students and their families that deferring work will ultimately yield higher economic rewards, and changing cultural mores will take time. The pace of progress will depend partly on the availability of funding, which will depend on, among other constraints and choices, the growth of GDP and allocation of available resources among competing priorities (e.g., healthcare, the military, social services, and access to urban benefits).

Expectant Citizenry

Changing attitudes and expectations are as important as changing demographics. For decades, the unquestioned priority of rapid growth incentivized national and local officials to ignore laws and regulations intended to limit air and water pollution. The results were predictable and yielded short-term benefits, but long-standing tradeoffs are no longer acceptable. More than half the fresh water in an already water-stressed country is unfit for human consumption, and air pollution accounts for hundreds of thousands of “excess” deaths every year.¹⁸ China's better-educated and better-connected (through social media) citizens increasingly demand action to clean up the mess. The fruits of modernization—such as mobility, connectivity, education, and urbanization—have made governance more difficult. The Chinese people are more willing and able to demand action and accountability. The party-state remains highly authoritarian with the ability to intimidate, suppress, and coerce, but it also now works to gain legitimacy and promote accountability. It cannot ignore the demands and expectations of the citizenry. This accountability has many consequences, some of which will be discussed below—but the point here is that the conditions that shaped the attitudes and behavior of citizens during an earlier period of

development, and the sacrifices and costs that they were willing to assume, have changed and continue to change in fundamental ways. Simple extrapolation from the past to predict what China will be like and how it will act in the future are almost certain to be wrong.

The likelihood of impatience-fueled demands is higher now than during the first decades of reform because roughly 75 percent of the population now has no direct memory of what things were like before the era of reform and opening. Having experienced only China's period of miracle growth, they are justifiably proud of what has been achieved and are understandably impatient for more. Unlike the generations that experienced life under Mao and cautioned their children and grandchildren to temper demands for more (goods, opportunities, freedom, etc.) to avoid jeopardizing what had recently been achieved, the majority of PRC citizens now expect continued high growth and faster satisfaction of their aspirations. Like youth everywhere, they are impatient and unimpressed by stories about what the party did for grandma and grandpa. They want immediate satisfaction of demands that their life experiences tell them are reasonable.¹⁹

Healthcare Costs and a Graying Population

The people-centered challenges are among the most urgent and difficult of this list, given the large size of China's population (1.4 billion). One dimension of these challenges is to provide adequate and affordable healthcare, which is both demanded by the public and required for sustained economic growth.²⁰ China currently spends 6.4 percent of GDP on healthcare compared to Japan, which spends approximately 11 percent of its GDP, and the United States, which spends more than 17 percent. Even though the percentage China spends on healthcare is much less than in more developed countries, it is now twice as high as it was in 1980.²¹ Moreover, costs are destined to increase significantly as China's population ages and citizens demand more specialized doctors as well as access to better hospitals and advanced medical technologies.

China's healthcare challenges are inextricably linked to challenges resulting from its graying population. By 2049, the 100th anniversary of the People's Republic, the population over the age of 60 will exceed 350 million and constitute one-third of the total population. Those more than 80 years old will exceed the current population of France (67 million). As citizens age, their medical needs go up and China will have to devote increasing resources to the treatment of coronary disease, cancer, diabetes, Alzheimer's, and other chronic conditions. Japan also has a rapidly aging population, but unlike Japan, China will become old before it becomes rich. China will have greater difficulty meeting the challenges of an aging population because its period of miracle

growth ended before it attained the status of a high-income country, defined by the World Bank as having a US\$12,376 Gross National Income (GNI) per capita.²²

In China, families are still primarily responsible for caring for elderly members. But in the past, families had many children, lived overwhelmingly in rural areas, and expected much shorter lives. After almost two generations of the “one child per couple” policy, which was lifted only in 2015, a large percentage of Chinese living today have no siblings, no cousins, and no aunts or uncles. As a result, one of the most fundamental pillars of traditional Chinese society, the extended family, can no longer play the stabilizing role that it did in pre-reform eras, including caring for the oldest members of the extended family while those in their prime years worked. Young couples now face the prospect of supporting four parents and eight grandparents without contributions from siblings. Children who must work to pay for health and elder care cannot be at home to assist the elderly to bathe, dress, or get out of the house. On the other hand, if they become care providers themselves, they cannot easily hold other jobs.

The extended family bears primary responsibility for its members (elder care, employment, education, etc.). That safety valve is vanishing, and Chinese fertility rates are predicted to remain low because of the same forces operating in other modern societies. The erosion of filial obligation means that cautious elders will have even less influence over younger members of the family and that single children will expect and demand better-paying jobs and more help from the state to care for elderly parents and grandparents.²³

Reducing Cadre Incentives

Beijing’s ability to achieve dramatic growth by tweaking institutions inherited from the Maoist period owes much to local officials. It was cadres at different levels of the system who worked within institutions to support a centrally planned economy but also adapted the operation and function of these agencies and bureaus to grow their economy and manage society. These strategies have been characterized as adaptive governance.²⁴ The de facto decentralization of power and latitude accorded to local officials produced a win-win strategy that allowed officials at all levels and average citizens to profit from reform.²⁵ The resultant incentives encouraged local officials to innovate and be entrepreneurial in ways critical to China’s rapid and sustained economic growth.

Under Xi Jinping, the incentives for local officials have changed radically. His marquee anti-corruption campaign has made many of the strategies that were staples of their development toolbox suspect and targets of investigation and conviction. Xi’s persistent anti-corruption campaign that has netted “tigers and flies,” i.e., officials at all levels,²⁶ has instilled fear of disgrace and

arrest in local officials. As officials are handcuffed and walked off the stage in public meetings and hot lines are set up for citizens to turn in corrupt officials, everyone has been scared into carefully toeing the official line. It is common knowledge that, as part of the anti-corruption campaign, local officials complain about having to adhere to strict mandates such as ordering no more than “4 dishes and a soup” at official meals. But there are also signs that local officials have decided that it is safer to “sit on their hands” rather than be entrepreneurial and risk being caught in the dragnet of anti-corruption. Some are resigning, and the number of those taking the civil service exam is decreasing.²⁷

Entrenched Elites

The emergence and entrenchment of a powerful political and economic elite after 40 years of economic success may be one of the most consequential changes that will hamper, if not block, tackling the most difficult institutional reforms, especially those related to SOEs. When Deng spearheaded the new strategy of development in 1978, he encountered only limited opposition from vested interests because Mao's Cultural Revolution had wreaked havoc on the state bureaucracy, destroying entrenched economic and political elites who had an interest and ability to resist reform.²⁸ The rehabilitated cadres who implemented reform measures were happy to be rescued from political exile and allotted positions in a restored Leninist political bureaucracy.

Four decades later, their successors (often their children) have acquired wealth and power by virtue of their privileged ability to take advantage of reform measures. This group now constitutes a powerful and deeply entrenched elite that benefits from extant arrangements and is reluctant to adopt further reforms that would jeopardize their privileged status. This is also the group that would have to approve and implement next step reforms, so it is no surprise that the process was bogged down in Hu Jintao's second administration (2007–12). Unless a significant segment of this elite determines that fundamental change is necessary to protect its own interests, greater repression is more likely than fundamental reform.²⁹

Urbanization and *Hukou*

More than 50 percent of China's population now lives in cities, and this figure is projected to increase rapidly to more than 70 percent by 2030.³⁰ Urbanization is a manifestation of modernization, but it underscores and exacerbates one of China's most difficult deferred problems: what to do with the *hukou* system of household registration. Instituted in the 1950s to limit

Urbanization exacerbates one of China's most difficult deferred problems.

migration to urban areas, *hukou* created a two-tiered society with unequal citizenship rights. This policy created a cheap source of labor that helped China's rapid economic growth, but it also meant that those migrants who moved to the cities to take the low-paying jobs could be treated as second-class citizens.

China's 40 years of rapid economic development has resulted in hundreds of millions of people with rural household registration living outside their place of legal residence, many of them in cities. Described as "migrants" or part of the "floating population," they are counted in the census of urban residents but are not entitled to the services and other benefits of having an urban *hukou*.³¹ The *hukou* system links eligibility for education, healthcare, disability payments, and other social services to the location of legal household registration rather than to the location of work or actual residence. Migrants have the right to vote and access to public goods, including sending their children to schools, but those rights can only be exercised in the countryside where they are registered.

Beijing plans to increase the percentage of the total population with urban *hukou* from 35 to 45 percent by 2020. That means formally and legally extending urban household registration benefits to an additional 100 million people. Yet, under current arrangements, many who live in urban areas do not have legal urban household registration even if they are counted as "urban" in official statistics.³² Some highly skilled migrants are awarded urban household registration through their workplace; other people obtain that status when their home locality officially becomes part of an "urban area."

Moreover, the *hukou* system has become the basis by which the center allocates funds to the localities for public services. Without substantial infusions of money, either to city governments or firms, the extension of access to more people would reduce benefits to those who already have them. The challenges of urbanization are further compounded by the increasing reluctance of citizens with rural *hukou* to surrender the certainty of land use rights (whether they farm the land themselves or rent it to others) in order to obtain uncertain benefits of urban residence. Skyrocketing land prices in many localities increases reluctance to trade use rights for an urban *hukou*.

Growing Debt

For much of the high-growth period, China has spent considerably more than it earned. Total debt is now approximately three times GDP.³³ Much of China's

debt has been incurred by SOEs. The renewed importance and subsequent allocation of resources that Beijing is giving to SOEs is one of the clearest examples of China going back to the future rather than tackling a difficult reform.

Local governments also have incurred massive amounts of debt. While the anti-corruption campaign might blame cadres for the growing local debt, the fact is that a flawed fiscal system forces localities to meet the cost of the many well-intentioned but unfunded mandates imposed by Beijing. For example, the center provides special transfers to localities for infrastructural development, but a locality must provide matching funds to obtain the money. Debt and growth are conjoined twins in China.³⁴ Debt increases the danger of financial collapse and pressures to deleverage in a system that already restricts loans to the more productive private sector, and barter has replaced financial transactions in the settling of accounts even among SOEs.

Servicing debt was more manageable in years of super-high growth, but repayment will be more difficult with slower growth and greater demand for government services. Virtually every area of public and private economic activity from defense to elder care has increasingly urgent requirements for more money to pay for new initiatives, including building high-tech industries and producing highly trained college graduates. China will either have to incur even more debt or invest and grow at a slower rate than in recent decades. But inability to satisfy public demands erodes regime legitimacy, and inadequate investment in one area impedes attainment of priority objectives in others.

Information Control

Monetary cost is only one dimension of the challenges facing PRC leaders. Four decades of rapid economic growth and other dimensions of modernization have transformed the country in fundamental ways that threaten key elements of the party-state system. Since the founding of the People's Republic in 1949—and for centuries before that—China's authoritarian regimes have endeavored to maintain stability by controlling information. This control was, and to an extent still is, achieved through control of official and unofficial media. The way PRC media distorted reality in their coverage of the 2019 demonstrations in Hong Kong illustrates use of this technique. However, despite restrictions on access to foreign media and vigorous efforts to strengthen the Great Firewall and censor content on the internet, the regime is fighting a losing battle.³⁵

Although sometimes tragi-comic endeavors to purge material judged critical of the regime and its leaders receive the most attention in commentary about the internet in China (e.g., deleting images of Winnie the Pooh to avoid mocking comparisons to Xi Jinping), the spread of “news” via social media is a far bigger problem for the party-state. Maintaining control, which we argue below has

become the de facto top priority of the regime, was long achieved through divide-and-rule techniques that relied on limiting the spread of information about local developments. This control enabled officials to ignore, address, or repress civic grievances without fear that knowledge of what happened would spread to other places. Social media have made that impossible, perhaps most famously in the case of the Wukan incident.³⁶

Despite Herculean efforts to monitor social media and remove information deemed offensive or dangerous to the party-state, news about protests and government responses is immediately, even if only temporarily, disseminated to all parts of China and the outside world. This spread of information greatly increases opportunities for collective action and criticism of the regime and its leaders. To date, the kinds of action envisioned by champions of liberation technology have not emerged in China, but surveys show that Chinese citizens already spend more time on and assign greater credibility to social media than to TV, radio, or print outlets.

Nationalism

Nationalism is another challenge exacerbated by government actions that will constrain and shape policy choices. Chinese people, especially those who know only the successes of the reform era and the mythologized version of history skewed to legitimize party rule, are deeply proud of their country's accomplishments and are imbued with the idea that other countries, particularly

Nationalism has made it more difficult for Beijing to compromise on issues involving sovereignty.

the United States, want to prevent China from regaining its rightful place atop the international system. Instilling national pride is part of civic education in all countries and has been part of the Chinese modernization story for more than a century. However, as youth had more to be proud of and the party-state began to rely more heavily on the nationalism pillar of legitimacy as economic growth slowed, the instrumental uses of nationalism have changed.³⁷

Efforts to bolster performance-based legitimacy with greater national pride and assertions that only the party could sustain prosperity and protect the country from jealous and hostile foreign adversaries have made it more difficult for Beijing to compromise on issues involving sovereignty (e.g., the territorial disputes with Japan and India as well as claims in the South China Sea). Although seldom stated in such bold terms, there seems to be a widely shared sentiment in China, especially among the

generations that have known only rapid growth, that China need not and should not yield to pressure and demands from any country. Chinese people also share a propensity to see criticism of any Chinese claims or actions as unjustified and unacceptable.³⁸ In the era of social media, high expectations, and regime concern about legitimacy and stability, there are strong incentives for leaders to get out in front of sovereignty issues, even when doing so jeopardizes economic growth (as is clearly the case with Japan).³⁹

Military Modernization

Ending China's "Century of Humiliation" and safeguarding the country's sovereignty and territorial integrity are central to the Party's legitimating mythology, but Beijing deferred modernizing and upgrading the People's Liberation Army (PLA) for many years. It did so for three reasons: 1) to make more money, engineers, industrial capacity, etc. available to increase production of consumer goods for the Chinese people and for export; 2) to develop the industrial capacity to build advanced weapons, and 3) to reduce American and other foreign concerns about the consequences of assisting China's quest for development. Deferring military modernization was justified by claiming, as Deng did, that international conditions (and the success of Mao's foreign policy) made it possible for China to forestall the inevitable clash with imperialist powers for two decades. The two-decade window has been renewed several times, but double-digit increases in defense budgets since the 1990s have made the PLA a major military power and transformed the strategic situation in the western Pacific.

As its capabilities have increased, Beijing is discovering new uses for military power and new requirements for access abroad as well as to protect supply lines. There are many dimensions and consequences of this change, including infrastructure projects now subsumed under the Belt and Road Initiative (BRI) umbrella. There is a clear two-way linkage between having capabilities that make it prudent to expand abroad and expansion abroad that requires augmentation of military capabilities, but the net result is that China is now saddled with military missions and commitments that will demand even more resources in the years ahead.⁴⁰

Xi Jinping launched what is now called the BRI in 2013. The program quickly became a key part of Xi's China Dream and is now enshrined in the party constitution. How effectively BRI exports excess capacity in construction-related industries or the degree to which China can use it to gain foreign policy and security benefits by providing grants and loans at below market rates is unclear. Regardless of its actual success, the resultant expansion of Chinese interests have increased the perceived need for military capabilities to protect those interests and possibilities for deployment of forces beyond China's

borders.⁴¹ The scope of this undertaking is breathtaking, but six years on, it seems to have garnered more skepticism and animosity than affection or soft power.⁴² Indeed, China's relationship with more or less all countries is more fraught today than it was before Xi launched the BRI and China began to flex its economic and military muscles in ways neighbors found worrisome.

Beijing is learning, as have other nations, that building advanced equipment is the relatively easy and inexpensive part of becoming a major military power. Its characterization of the international environment, pressures from its military-industrial complex, and the arms race it has triggered will require increased funding and shape debate on how much money can be spent on other national priorities. It will also shape the challenges China faces in the international system because nations will respond to China's buildup by arms purchases of their own and efforts to use alliances, alignments, and other instruments of geopolitics to counterbalance Chinese power.⁴³

Fateful Decisions

We do not predict either a failed (or failing) China or a triumphant hegemonic China—what happens will depend on the choices China's leaders make in what will be seen as a watershed moment. After four decades of enviable growth, China has the leeway and the resources to explore numerous options to address its new challenges.⁴⁴ Sustained economic growth has been the key to legitimacy, stability, and security. Delivering material benefits remains an essential pillar of legitimacy, but now that slower growth has become the new normal and solving the remaining problems of reform entails greater risks, China's leaders act as if maintaining stability (order/domestic tranquility) has become crucial for continued success.⁴⁵ The next steps of reform that Chinese officials and outside observers deemed essential for sustained economic growth and stability were apparently perceived to entail unacceptable risks, and reform stalled during Hu Jintao's second term (2007–12).

As performance began to weaken, preventing disorder by tightening control became the highest priority.⁴⁶ Now, instead of reforming flawed institutions, including the *hukou* and fiscal systems that have yielded impediments to urbanization and never-ending local debt, the party-state is trying to maintain order by suppressing dissent and imposing tighter constraints on local officials and the private sector. This suppression is necessary, officials argue, to sustain growth *and* the party-state system. Order, equated with preservation of party rule, has supplanted growth as the top priority. Recentralization of control and an incessant anti-corruption campaign have replaced economic incentives in central-local relations.

Returning to forms of political control that take China back to the future without tackling the most difficult, but needed, institutional changes may cause its leaders to stumble in ways that undercut social stability and regime legitimacy, affect international behavior, and further limit the choices Beijing will have to address the kinds of challenges summarized above. Fear of the disorder (*luan*) that many anticipate would result from loss of party control might temporarily override dissatisfaction with the regime, but the future of China will be determined by how effectively Beijing manages the multiple, interconnected, and, to some extent, zero-sum challenges that can no longer be postponed.

One danger may be that the leadership does not have the luxury to systematically contemplate which choices to prioritize. Unexpected events may force decisions that set the regime on an altered course. As this article goes to press, China may be facing such a crossroads with the Wuhan coronavirus. Wuhan, a major transportation hub with 11 million residents, has been put in lockdown, and people in much of the country have been told to stay in their homes. The challenge of coping with such an outbreak would be daunting for any government. China has handled the coronavirus crisis better than the SARS epidemic in 2003, but the challenges of the type discussed here are quickly becoming manifest in both the limits of government response and citizen reaction. It is already clear that an increasingly demanding citizenry expects more from its government, including better organized and more sufficient medical care that does not leave sick (and likely infected) patients wandering from hospital to hospital because facilities are overwhelmed and supplies are lacking. Perhaps more worrisome for the regime is that citizens are demanding more openness and seeking more timely and truthful information. Social media and the internet are clearly making it more difficult for the government to control information or censor citizen complaints. Despite orders to tighten the release of information and report only achievements, not shortfalls, in the government handling of the crisis, there was an explosion of anger on social media after the doctor who sounded the alarm about the existence of a new contagious virus succumbed to the virus—after having been forced to recant his warning.

The array of citizens who posted angry messages was wide, including party officials of major media bodies.⁴⁷ Such widespread and emotional outbursts underscore the new realities facing the government. The finger pointing by officials attempting to fix or deflect blame for the slow reaction and inadequate response to the situation highlights both the consequences of recentralization

China's future will be determined by how effectively Beijing manages these challenges.

efforts and the persistence of propensities to hide bad news. China has tremendous resources, both human and financial, but this crisis has the potential to become a perfect storm of challenges that test the capacity of the party-state and its “back to the future” approach to new and more difficult problems.⁴⁸

Notes

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