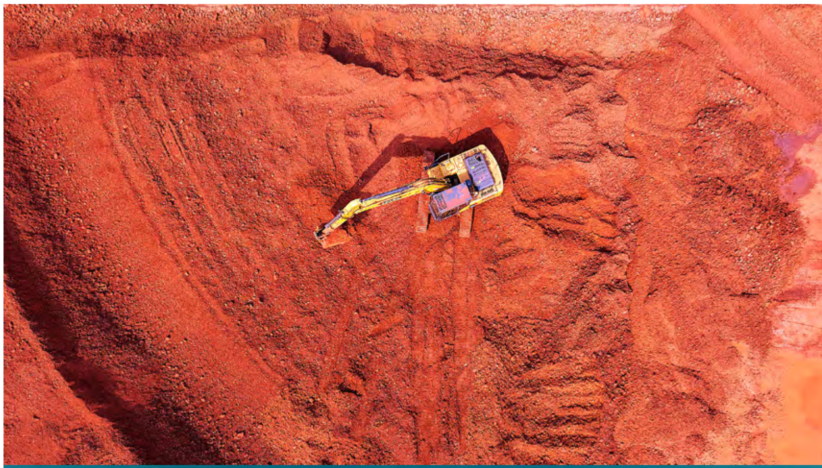
CENTER FOR CHINA ANALYSIS REPORT

CHINA 2026

WHAT TO WATCH



ASIA SOCIETY POLICY INSTITUTE / Center for China Analysis

CHINA 2026

WHAT TO WATCH

A REPORT BY

ASIA SOCIETY POLICY INSTITUTE'S

CENTER FOR CHINA ANALYSIS

December 2025

With a solution-oriented mandate, the Asia Society Policy Institute tackles major policy challenges confronting the Asia Pacific in security, prosperity, sustainability, and the development of common norms and values for the region. The Asia Society Policy Institute is a think-and-do tank designed to bring forth policy ideas that incorporate the best thinking from top experts in Asia, and to work with policymakers to integrate these ideas and put them into practice. The Asia Society Policy Institute's Center for China Analysis is a leading global think tank committed to decoding China's complexities with an "inside-out" approach by offering evidence-based, independent, and policy-relevant analyses with a balanced, holistic, and human-centered focus.

THE ASIA SOCIETY POLICY INSTITUTE'S CENTER FOR CHINA ANALYSIS
Web: AsiaSociety.org/Policy-Institute
X: X.com/AsiaPolicy
Facebook: Facebook.com/AsiaPolicy
LinkedIn: LinkedIn.com/showcase/AsiaPolicy
Email: cca@asiasociety.org

NEW YORK
725 Park Avenue, New York, NY 10021
+1 212 288 6400

WASHINGTON, D.C.
1779 Massachusetts Avenue NW, Suite 805
Washington, D.C. 20036
+1 202 833 2742

COVER IMAGES (CLOCKWISE FROM TOP RIGHT): Photo by Alexander Kazakov/Pool/AFP via Getty Images; Photo by Lintao Zhang via Getty Images; Photo by -/AFP via Getty Images; Photo by -/AFP via Getty Images; Photo by STR/AFP via Getty Images; Photo by Cheng Xin via Getty Images.

CONTENTS

Preface

Asking the Right China Questions: An Inside-Out Framework

CHINA 2026: WHAT TO WATCH

Where We Start

China is seldom black or white—indeed, it is anything but. The Chinese economy is neither on the verge of collapse nor so ascendant as to defy gravity. China's system is dynamic and in constant motion—navigating deep contradictions, balancing security and development, and forging new sources of legitimacy. It is perpetually adapting, and the system is often more resilient than many assume or wish to believe. To mistake China's evolution for either inevitable decline or unstoppable rise is to risk misreading the world's second-largest economy, as well as one-fifth of humanity. For policymakers and business leaders, such misjudgments can mislead. At worst, policymaking based on mirror imaging can border on irresponsibility.

That is why the **Center for China Analysis (CCA**) was established: to decode China's complexity from the *inside out*—grounded in evidence, objective research, and balanced, human-centered analysis. We aim to serve as a go-to platform for decision-makers seeking policy insights and practical understanding of China, grounded in a methodology that integrates political, economic, social, and cultural dimensions. Our goal is not to predict China's future, but to understand the patterns and drivers of its dynamism—and, in doing so, help others ask better questions about what comes next.

Each chapter begins with a strategic question carefully curated to surface tensions, possibilities, and pathways—one that does not lend itself to a singular conclusion.

China 2026: What to Watch is the third iteration of CCA's flagship report. Our annual exercise—drawing on the expertise of CCA's in-house and global fellows—aims to do precisely what we set out above: to ask the right questions about China. China is changing faster than most of us can keep pace. Each month brings new data, new narratives, and new signals from Beijing. Yet the challenge for us is not the quantity of information but how to synthesize the constant flow of statistics, speeches, and policy directives. Lastly, it is knowing what questions to ask about it.

This report starts there. **China 2026: What to Watch** is organized not as a catalog of topics but as a set of dilemmas. Each chapter poses a strategic question that captures the contradictions shaping China's next stage. Does Beijing have the political resolve to relax state-directed technology investments and shift toward a consumption-driven economy? Can the Chinese Communist Party (CCP) sustain legitimacy while managing social dissatisfaction driven by inequality and persistent youth unemployment? Will coercion in the Taiwan Strait remain calibrated—or slip into confrontation—against the backdrop of sweeping purges in the People's Liberation Army?

By asking questions rather than offering conclusions, this report seeks not consensus but curiosity. It invites readers to grapple with uncertainty—to consider not only what is happening, but what could plausibly follow, under what conditions, and with what consequences.

As the Chinese proverb reminds us, "To a thousand readers, there are a thousand Hamlets"—each mind finds its own meaning. China, in all its complexity—increasingly situated in an unpredictable world—also yields many faithful readings. This report does not seek a singular answer, but a plurality of possibilities for each issue area set forth across the twelve chapters. The questions posed here invite rigorous analysis through a multidimensional lens that deepens our understanding of China.

Thus, to guide this inquiry, each chapter begins with a strategic question carefully curated to surface tensions, possibilities, and pathways—one that does not lend itself to a singular conclusion.

Qualities of a strategic question

Each chapter begins with a question chosen because it meets several criteria:

- It exposes a core contradiction
- It remains unresolved yet plausible, dwelling in the "gray zone" between certainty and speculation
- It allows for multiple outcomes rather than a single forecast
- It carries consequences across dimensions
- It matters now in 2026, while shaping choices that extend far beyond this year

A common structure

To ensure comparability, every chapter follows a similar sequence:

- Strategic question
- Stakes and relevance in 2026
- Core dilemma
- 2026 outlook
- Key conditions and contingencies
- Signals to watch
- Scenarios (baseline, alternative, and wildcard)
- Strategic implications
- Policy takeaways and conclusion

This structure was chosen to impose a framework that moves beyond description to anticipation. Each contribution highlights not just what is happening, but what signals to watch for, and which turning points might matter most.

What This Delivers

For readers, we hope the benefit is twofold. First, comparability: Whether examining inequality, trade, or Taiwan, we hope that with a familiar format, the structure makes it easier to draw insights across domains. Second, contingency planning: By laying out multiple plausible futures, the report equips policymakers, business leaders, and others to anticipate shocks and prepare responses.

CCA Core Methodology: Seeing China as It Sees Itself

If the format explains the structure of this report, the methodology explains its lens. China in 2026 is one of the most observed countries in the world, yet also arguably one of the most misunderstood. Numbers abound: GDP growth rates, debt levels, patent filings, birthrates. Yet metrics alone rarely explain the deeper logic of the system and its context. Why turbocharge the production of "new quality productive forces" when youth unemployment, involution, and external backlash continue to intensify? Why promote entrepreneurial revival but discipline the very innovators who fuel it? Why frame fertility policy through the language of patriotism and duty?

China in 2026 is one of the most observed countries in the world, yet also arguably one of the most misunderstood.

Answering questions like these requires more than counting data points. It requires seeing China as it sees itself. That is the foundation of the methodology that guides CCA's work and thus this report.

Perspective: Inside Out Rather than Outside In

The first principle of CCA's methodology is to start from within the system's own vantage point. Rather than projecting what outsiders expect China to do, analysis begins with how Chinese leaders, cadres, and institutions might explain their choices. Xi Jinping's willingness to constrain private enterprise, for example, makes little sense if viewed purely through the lens of growth maximization. It becomes clearer when read as a political project to fuse innovation with Party control, to shore up CCP legitimacy through discipline and private-sector dynamism, and to strengthen China's long-term competitiveness vis-à-vis the United States.

Evidence: Primary Open-Source and Multimethod Research

The second principle is evidentiary discipline. Each chapter draws on open sources: Chinese-language Party documents, speeches, and media outlets, but also official statistics, financial filings, and multinational investment records. Even when scripted, Chinese texts reveal how the Party communicates with itself—the key is knowing where, and how, to look. Meanwhile, quantitative data on clinical trials, debt levels, and youth unemployment illustrate how directives conform to or collide with real-world conditions. This blend of discourse analysis and empirical data reflects the reality of studying China today: Political intent and material outcomes must be read together.

Integration: Connecting Politics, Economy, Society, and Foreign Policy

The third principle is integration. In China, as in all nation-states, politics, economics, society, and foreign policy are not separate spheres. A decision on de-leveraging the property sector is simultaneously about fiscal sustainability, local stability, and U.S.-China dynamics. Climate diplomacy is inseparable from industrial strategy and geopolitical competition. Even health policy is best viewed through the wider lens of CCP legitimacy, demographic challenges, and Beijing's geopolitical ambitions. This is how decisions are made at the top. The Politburo does not address health policy, trade, or Taiwan in isolation; it weighs them in relation to one another. Analysis that treats these domains as compartmentalized risks missing the dynamics that drive outcomes.

Synthesis: A Multilateral Lens on China

The fourth principle is synthesis through a global lens. Policymakers and business leaders around the world are rarely short of information on China; what they often lack is synthesis. This report distills diverse evidence into frameworks that clarify drivers, trade-offs, and plausible pathways. It does so through a deliberately multilateral perspective—analyzing Beijing's choices in relation not only to Washington, but also to Brussels, Seoul, Taipei, and the Global South. Such synthesis keeps the analysis relevant to allies, competitors, and partners alike and aims to inform critical decisions at pivotal moments.

Why Methodology Matters

These four methodological pillars—perspective, evidence, integration, and synthesis—are not academic abstractions. They explain why the chapters are organized around dilemmas rather than static topics, why sources range from Party discourse to IPO filings, and why synthesis is prioritized over fragmentation. The aim is to illuminate China's trajectory as its own leaders and institutions might experience it—paradoxical, contested, and consequential—and to do so in a way that resonates with decision-makers beyond Washington.

Crosscutting Themes: The Paradoxes of China in 2026

The twelve chapters in this report differ in focus—from demographics to trade, from climate diplomacy to the Taiwan Strait—yet they converge on several themes that cut across domains. Together, these themes capture the paradoxes shaping China's trajectory in 2026.

1. Control Versus Dynamism

Xi Jinping prizes dynamism but insists on control. Nearly every chapter in **China 2026: What to Watch** demonstrates how this paradox defines China's political economy today. Tech entrepreneurs are urged to partner in national development, but the memories of crackdowns and lack of systematic protection still chill investment. Pharmaceutical firms make world-class breakthroughs, like Akeso's cancer therapy, yet sweeping anti-corruption probes unsettle the very sector that is expected to innovate. Chinese cleantech companies—confronting a world in which only the fittest survive—feel the momentum to go abroad, yet face political scrutiny to abide by Beijing's directives to protect China's interests.

The pattern is clear. The Party knows it needs the vitality of markets to unleash the animal spirits of private entrepreneurs and local officials, but it fears the flip side of bottom-up dynamism: the potential erosion of control. That tension will persist as Beijing seeks, once again, to have it both ways.

2. Security and Development

According to official discourse, "security is the prerequisite for development, and development is the guarantee for security." This formulation, reaffirmed in the Communiqué of the Fourth Plenum of the 20th Central Committee, anchors Xi Jinping's governance philosophy. The emphasis is not on choosing one over the other, but on constant recalibration.

The interplay between the two is evident across sectors. Economic initiatives such as export controls, industrial upgrading, and technological self-reliance are justified as steps toward "high-quality development" and national resilience. Anti-corruption drives in healthcare and local government are framed as safeguarding both stability and public trust. Climate diplomacy, too, blends the two logics: Solar panels and electric vehicles are promoted as global goods, yet they are framed domestically as pillars of energy security. For China's leaders, the challenge lies not in prioritizing development or security, but in maintaining the equilibrium between the two as the country navigates a more complex and contested global environment.

3. Enduring U.S.-China Competition

Virtually every chapter—whether on trade, pharmaceuticals, Taiwan, or climate—reflects the deep embedding of U.S.-China competition in Beijing's policymaking. The rivalry is no longer episodic; it is structural.

China will continue to be ambitious, innovative, and globally influential—yet also constrained, brittle, and internally contradictory.

China views perceived American decline as an opportunity to expand its influence, yet it recognizes that U.S. alliances, sanctions, and tariffs remain formidable constraints. The United States, in turn, interprets China's assertiveness through a lens of strategic mistrust, hastening its attempts to deepen decoupling and hedge its exposures. The so-called "G2" has, for now, settled into a state of managed competition—a characterization of the bilateral relationship that bolsters Beijing's political legitimacy while reflecting Washington's need for tactical stability. It is a relationship defined by high-frequency volatility inflected with "reality-show" politics and low-level stability sustained by the interdependence expected in the foreseeable future. This competition extends well beyond security, encompassing trade, global supply chains, innovation ecosystems, public health, and international governance. It is the context within which China's domestic and external choices are being made.

4. Fragility Beneath Resilience

China projects strength, but that strength rests on an uneven foundation. It leads the world in electric vehicles, batteries, solar power, and large swathes of global supply chains, yet local governments remain weighed down by trillions in debt, and the country is on the precipice of a steep demographic cliff. It now conducts more medical clinical trials than the United States, yet youth unemployment hovers near 20 percent, fueling disillusionment and the "rùn" culture of emigration. The economy continues to expand, but growth is increasingly state-directed—adding output without commensurate gains in productivity—leaving investors cautious about being too bullish and households hesitant in their future planning.

The result is a paradox: resilience in select sectors, but fragility in the broader system. Breakthroughs coexist with brittleness, leaving China simultaneously powerful and vulnerable—as it so often has been.

5. The Xi Factor and Performance Legitimacy

Finally, the chapters underscore the centrality of Xi Jinping. The 15th Five-Year Plan from 2026 to 2030 will carry his personal imprint, and the run-up to the 21st Party Congress in 2027 will attest to his grip on power. Xi's priorities—political control, national security, high-quality development, technological self-reliance, military modernization—are clear. But so are the trade-offs. Centralization curbs initiative, securitization unnerves investors, and technology-first policies risk crowding out household consumption.

How effectively the Party-state manages these trade-offs will determine whether Xi's system of governance delivers resilience or rigidity in the years ahead.

Closing Reflections: A Balancing Act Under Stress and an Inside-Out Journey Together

The picture that emerges from this report is not of seamless ascent, but of a system under constant stress. China in 2026 will continue to be ambitious, innovative, and globally influential—yet also constrained, brittle, and internally contradictory. Its remarkable gains in artificial intelligence, clean technology, biotechnology, and manufacturing prowess showcase extraordinary capacity, but these advances coexist with mounting demographic decline, local debt burdens, deflationary pressures, and a hesitant consumer recovery. The contradictions are not incidental; they are structural, defining the texture of China's transition.

The purpose of this report is not to deliver a single forecast but to equip readers with tools: questions that illuminate tensions, scenarios that map possibilities, and indicators that signal which way the balance may tip. By synthesizing insights across twelve chapters, we aim to help policymakers, business leaders, and civil society actors anticipate China's pathways and identify opportunities to shape them.

China in 2026 is ascendant yet constrained, powerful yet fragile, ambitious yet anxious. Its trajectory will reverberate far beyond its borders. Understanding its dilemmas, we submit, is the first step toward navigating them. We invite you to join us on this "inside-out" journey.

Jing Qian & Jennifer Choo

About the Authors

Barclay Bram is Non-Resident Fellow on Chinese Society at the Asia Society Policy Institute's (ASPI) Center for China Analysis. He holds a PhD from Oxford University's School of Global and Area Studies and works as a journalist at *The Economist*.

Patrick Beyrer is Research Associate on Global Public Health at ASPI's Center for China Analysis. He is currently Manager in the Trade and China Practices of McLarty Associates, a global strategy firm in Washington, D.C.

Sungmin Cho is Non-Resident Fellow on Chinese Politics, Foreign Policy, and National Security at ASPI's Center for China Analysis and Associate Professor in the Department of Political Science at Sungkyunkwan University in South Korea. Previously, he was Professor at the Asia-Pacific Center for Security Studies, an institute of the U.S. Department of Defense based in Hawaii. Cho holds a PhD in government from Georgetown University, an MA from Peking University, and a BA from Korea University.

Jennifer Choo is Director of Research and Strategy at ASPI's Center for China Analysis. Previously, she served in various leadership roles at Stanford University, first as Associate Director of the Stanford China Program at the Walter H. Shorenstein Asia-Pacific Research Center and then as Strategic Policy Adviser at the Stanford Center on China's Economy and Institutions.

Diana Choyleva is Non-Resident Senior Fellow on Chinese Economy at ASPI's Center for China Analysis and a leading expert on China's economy and politics. She is Founder and Chief Economist at Enodo Economics, an independent macroeconomic, political, and geopolitical forecasting company focusing on China and its global impact. She has analyzed China since 2000 and has authored four books. She served as a Non-Executive Director on the board of JPMorgan Asia Growth and Income PLC (2023–2025).

Michael Hirson is Non-Resident Honorary Fellow on Chinese Economy and Technology at ASPI's Center for China Analysis. He is also Head of China Research at 22V Research, an investment advisory firm based in New York. Hirson spent 10 years working for the U.S. government on international economic issues, including as the U.S. Treasury's senior representative in China.

Brendan Kelly is Non-Resident Fellow on Chinese Economy and Technology at ASPI's Center for China Analysis. He previously served as Director for China Economics at the National Security Council, as Deputy Head of International Relations and Country Risk at the Federal Reserve Bank of New York, and as U.S. Treasury Attaché in Beijing.

Philippe Le Corre is Non-Resident Senior Fellow on Foreign Policy at ASPI's Center for China Analysis and Senior Adviser on Geopolitics to Asia Society France. A former Senior Adviser to France's Minister of Defense, he is also Professor of Geopolitics and Asian Studies at ESSEC Business School, which has campuses in Paris and Singapore. He previously worked as Senior Researcher at the Brookings Institution and the Harvard Kennedy School.

Lizzi C. Lee is Fellow on Chinese Economy at ASPI's Center for China Analysis, where she leads the center's Economy and Technology Pillar. She holds a PhD in economics from MIT and has published extensively in *Foreign Affairs*, *Financial Times*, *Harvard Business Review*, *Time*, *Foreign Policy*, and other outlets. She is also a frequent commentator in international media, including *The New York Times*, *The Economist*, Bloomberg, CNN, NPR, and the BBC.

Li Shuo is Director of the China Climate Hub at ASPI and Senior Fellow at ASPI's Center for China Analysis. His work focuses on analyzing China's environmental and energy policies and supporting the international community's engagement with China's climate agenda. Before joining ASPI, Li spent more than a decade participating in United Nations environmental negotiations, focusing on climate change, biodiversity, oceans, plastic pollution, and the ozone.

Chang Liu is Non-Resident Honorary Fellow on Global Public Health at ASPI's Center for China Analysis and Founder and CEO of ASK Health Asia, a leading catalyst for health systems transformation in Asia. Through in-depth research, advisory, and solution co-creation, Liu's team works closely with public and private sector leaders to promote tangible new health policies and capture growth opportunities within the global emerging economy.

Kate Logan is Director of the China Climate Hub and Climate Diplomacy at ASPI and Fellow at ASPI's Center for China Analysis. She has followed and analyzed China's climate, energy, and environmental performance for over a decade at major think tanks, philanthropies, and nonprofits, with a focus on China's domestic environmental governance, the U.S.-China climate relationship, and China's overseas energy engagement.

Lyle Morris is Senior Fellow on Foreign Policy and National Security at ASPI's Center for China Analysis. Prior to joining ASPI, he was Senior Policy Analyst at the RAND Corporation from 2011 to 2022. From 2019 to 2021, he served in the Office of the Secretary of Defense (OSD) as the country director for China and received the OSD Medal for Exceptional Public Service.

Jing Qian cofounded ASPI's Center for China Analysis alongside the Honorable Dr. Kevin Rudd, to whom he served as a senior advisor for almost a decade. As the center's Managing Director, he leads strategy, research, and policy work on China, including a series of Track 1.5 dialogues. He also co-leads the Decoding Chinese Politics and Cure4Cancer projects and serves as an advisory board member of Bloomberg New Economy.

Lobsang Tsering is Senior Research Associate on Chinese Politics at ASPI's Center for China Analysis. Before joining CCA, he worked for 20 years as a political specialist at the U.S. Consulate General in Chengdu (2003–2020) and the U.S. Embassy in Beijing (2020–2023). He holds a PhD in world history from Sichuan University, where he studied great power politics in the Indo-Pacific Region.

Guoguang Wu is Non-Resident Senior Fellow on Chinese Politics at ASPI's Center for China Analysis. He is also Senior Research Scholar at the Stanford Center on China's Economy and Institutions and Senior Scholar and Executive Director of the Human Security and Prosperity Project at the Hoover Institution. With a PhD in politics from Princeton University, he specializes in elite politics and political transition in China, as well as globalization and institutional transformation in comparative political economy.

Emma Zang is Non-Resident Fellow on Chinese Society at ASPI's Center for China Analysis and Associate Professor of Sociology, Biostatistics, and Global Affairs at Yale University. Her research examines how policy, demographic, and technological changes shape inequality across the life course in China and the United States. She develops artificial intelligence tools to study neighborhood disadvantage and aging, and her work—featured in top journals and major media—bridges sociology, health, and data science.

What Will Xi Jinping's Priorities Be in 2026?

Neil Thomas and Lobsang Tsering

Photo by Pedro Pardo/AFP via Getty Images

The Stakes: Where is Xi Steering China?

The year 2026 will mark an important moment on Beijing's political calendar. It will be the year China releases and begins implementing the 15th Five-Year Plan, for 2026–2030—a blueprint that will determine how resources are allocated, how industries are supported, and how economic activity is guided for the rest of the decade.[1] It will also be the political runway to the 21st Party Congress in 2027, the moment when Xi Jinping will present himself once again as the indispensable architect of China's future.

These milestones matter because, following the 20th Party Congress in 2022, Xi has now succeeded in extending his tenure beyond the established norms of recent Chinese political history, making this plan the clearest marker yet of whether his model of centralized governance can sustain economic momentum and political legitimacy. The 13th Five-Year Plan was mapped out in 2015, just three years into Xi's tenure, while the 14th Five-Year Plan was drafted in the shadow of the COVID-19 pandemic.[2]

The policy context is arguably now even more challenging. Growth has slowed, the property sector remains fragile, and local governments face heavy debt burdens.[3] Demographic decline is accelerating, with fewer births and a shrinking workforce.[4] Internationally, Beijing is grappling with protectionist trade and investment measures from the United States and Europe, while relations with Washington are being managed through rolling tariff truces rather than durable resolutions and substantive understandings.[5]

This question is therefore pressing in 2026: Can Xi's personal priorities—Communist Party control, national security, and technological self-reliance—be reconciled with the demands of growth, people's livelihoods, and external stability? Or will contradictions between control and business confidence, and between security and innovation, become more visible and more difficult to manage?

Core Dilemma: What the Leader Wants vs. What the Country Needs?

Xi's vision for China is clear: The Party must remain dominant, national security should inform every decision, and technological supremacy must provide the foundation for future prosperity. Yet these priorities, taken together, produce tensions that are increasingly difficult to resolve.

The control imperative has led Xi to centralize authority and enforce strict Party oversight. Since 2012, anti-corruption campaigns and institutional reforms have elevated loyalty relative to competence.[6] This has secured Xi's dominance but limited bureaucratic initiative. Officials hesitate to experiment for fear of missteps, leading to a slowdown in bureaucratic innovation and local adaptation. The very discipline that secures Xi's position limits the dynamism of the system.

Xi wants order and growth simultaneously, but the tools he uses to achieve one can undermine the other.

The security imperative has grown more pronounced in recent years. The 2024 revision of the State Secrets Law broadened the definition of what counts as sensitive information.[7] The Counter-Espionage Law has been enforced aggressively against foreign firms and their executives, creating uncertainty for normal business practices.[8] Xi has extended the logic of "comprehensive national security" to domains as varied as food, energy, cyberspace, and ideology.[9] From the Party's perspective, this reduces vulnerability. From the perspective of Chinese and foreign businesses, it creates risk and uncertainty.

The technology imperative—Xi's drive for self-reliance through "new quality productive forces"—is central to his vision, but it risks creating distortions.[10] Heavy investment and corporate guidance toward industrial upgrading can crowd out efforts to enhance consumption, address local government debt, and advance fiscal reform. By privileging technology and industrial capacity over consumers and markets, Xi may undermine the structural sustainability of growth. Ironically, this imbalance threatens the very imperatives that Xi values most—political control and national security—since low incomes and scarce jobs could spill into social discontent and weaken China's ability to sustain geopolitical competition.

The contradiction is clearest in property and trade. Local governments need revenue from land sales, but the property downturn persists and jeopardizes fiscal sustainability. Foreign markets are needed to absorb overcapacity in electric vehicles and solar, yet subsidies provoke countermeasures and growing tensions abroad. Xi wants order and growth simultaneously, but the tools he uses to achieve one can undermine the other.

Outlook for 2026

In 2026, Xi will double down on his priority domains—Party control, national security, and technological self-reliance. These themes will shape the direction of the 15th Five-Year Plan and the political choreography leading up to the 21st Party Congress in 2027.

The control imperative will dominate elite politics. Xi's overriding priority is to secure a team that can both implement his agenda and demonstrate absolute political reliability. Personnel reshuffles and vetting processes will focus on loyalty, then capability, with rising officials drawn from those who have proven themselves in priority areas such as national security, strategic industries, and defusing systemic risks. Xi will also try to keep others off balance, playing political groups against each other and reinforcing his role as the ultimate decision-maker. The emphasis on Party discipline and ideological conformity will see a continued drumbeat of purges aimed at senior officials, including those promoted during Xi's tenure, though not his closest allies whom he has known for several decades. Beijing will keep investing more in the domestic security apparatus to maintain social stability and suppress large-scale protest.

Economic pragmatism will surface, but Xi will resist deeper reforms that might empower households or reduce Party control.

On the policy front, Xi will continue tight security, expand strategic guidance of the private economy, and channel state resources into strategic technologies, and centrally run regional development projects. "Building a modernized industrial system" and "self-reliance and self-strengthening in science and technology" will be the key themes of the 15th Five-Year Plan, with increased emphasis on advanced manufacturing, artificial intelligence, and biotechnology. Xi wants to dominate global supply chains and close the technological gap with the United States so that China gains a stronger hand in international geopolitical competition.[11]

Economic pragmatism will surface when growth targets and social stability come under threat. Measures to contain local government debt, absorb unsold housing, maintain employment, and boost demand will be implemented, albeit in piecemeal fashion. Yet Xi will resist deeper reforms that might empower households or reduce Party control, such as large-scale central-local reforms, significant expansions of the social safety net, or liberalization of the private sector. Fiscal stimulus will be deployed to rescue the economy from shocks like domestic downturns or global recessions. The result will be incremental gains in favored areas of control, security, and technology—but stagnation or drift elsewhere, with underlying contradictions remaining.

Conditions and Contingencies

- **Political dominance.** Xi's personal authority must remain strong. At present, purges and institutional reforms ensure his supremacy, but elite dynamics always carry risk. Health issues or heightened discontent among Xi's allies ahead of the 2027 Congress, while unlikely, could alter the calculations.
- **Financial stability.** Local government debt is the most immediate vulnerability, especially as it runs the risk of Party cadres and civil servants going unpaid. Estimates place hidden liabilities

at 90–110 trillion yuan (USD 12–15 trillion).[12] The debt-swap program launched in 2024 has provided temporary relief, but unexpected defaults or fiscal blackholes could force Beijing into emergency measures, narrowing policy options.[13]

- **External containment.** Rivalry with Washington and the West must remain somewhat bounded. The truce reached at the Trump-Xi summit in Busan provides breathing space, but if U.S. domestic politics triggers a snapback to high tariffs and sweeping export controls, Beijing's short-term economic outlook would become more challenging.
- **Policy coherence.** Central promises must be implemented locally. For example, the 2025 Private Economy Promotion Law aims to reassure entrepreneurs, but its credibility depends on local officials.[14] If cadres continue to harass, overtax, and go into arrears with private firms, confidence will not return, undermining progress.
- **Social stability.** Rising unemployment or protests by homebuyers over unfinished properties could trigger harsh crackdowns. If these remain isolated, the system will hold. If they spread, Xi may feel compelled to tighten control even further.

These conditions are not guaranteed. Their fragility explains why Xi's system is stable but can be slow in a crisis: Order can be maintained, but shocks may push the system toward either harsher centralization or reluctant adjustment, with the balance between the two sometimes proving unpredictable.

What to Watch

- **Personnel moves.** Elite reshuffles during the run-up to the 2027 Party Congress will continue to reinforce Xi's emphasis on loyalty and service. Promotions are likely to favor officials with connections to himself and his inner circle (including the current Politburo Standing Committee). Conversely, if Xi's dominance slips, we could see demotions for close Xi loyalists, promotions for officials who were close to former leaders such as Hu Jintao and Li Keqiang, and more open contestation for control between sub-factions of Xi loyalists.
- **Rhetorical cues.** State media will continue to use "triple personally" (*san ge qinzi*) formulations (personally planned, personally instructed, personally implemented; *qinzi mouhua*, *qinzi bushu*, *qinzi tuidong*) to underscore Xi's central role in major initiatives.[15] Frequent repetition of slogans such as "new quality productive forces" and "comprehensive national security" in Politburo readouts and *People's Daily* editorials would confirm that Xi's core priorities remain firmly in place.
- **Central-local dynamics.** Signs of tension between Beijing and provincial governments will emerge around fiscal burdens and regulatory mandates. Local officials, already constrained by debt and shrinking land-sale revenue, may quietly resist costly central directives. Uneven implementation of consumption subsidies, housing conversions, or environmental targets is possible. Open defiance is unlikely but rising internal concerns are.
- **Regulatory enforcement.** New restrictions or investigations targeting sectors deemed

politically risky—data services, political consultancies, sensitive manufacturing sectors—would reinforce the securitized policy environment.

- **Policy delivery.** While Beijing may announce reforms in consumption, housing, or taxation, the rollout will likely be limited and underfunded. Ambitious, comprehensive, and well-financed reforms in these domains would be a surprise; partial or incremental measures would be consistent with the forecast.

Alternative Scenarios

- **Baseline (most likely): Steady as Xi goes.** The most likely outcome is that Xi sustains his strategic focus on Party control, national security, and technological self-reliance. Elite politics remain tightly managed during the run-up to the 2027 Party Congress. The economy muddles through with property triage preventing crisis, targeted subsidies stabilizing employment concerns, and local debt being rolled over and supported by central transfers. Growth will remain difficult, but will get close to targets and avoid contraction. This scenario assumes that Xi's health holds, U.S.-China competition stays bounded, and local government finances do not collapse.
- **Alternative 1 (less likely): Pressure-induced reform and delegation.** If economic pressures intensify—for example, if stock markets crash, housing prices disintegrate, or tariff truces collapse—Xi may be forced to inject more pragmatism into economic policy to keep his dream of national rejuvenation alive. This could include empowering technocrats to design more comprehensive fiscal reforms, expanding social safety nets, or finally exploring direct consumer stimulus. It might also push Xi to allow a greater role in elite politics for economic managers who can stabilize investor confidence. This path assumes that Xi can adjust tactically when stability is at stake, even if doing so means slowing his ideological and geopolitical agendas.
- **Alternative 2 (least likely): Shock-driven disruption.** A major shock could upend Chinese politics. This might take the form of a sudden health issue for Xi, a military escalation in the Taiwan Strait, or a crisis in the South China Sea. Such an event could create a crisis of confidence in the leadership, accelerate succession jockeying within the Party, or push policy toward emergency mobilization. Any of these situations would create uncertainty far beyond the baseline. This wildcard scenario highlights what the forecast assumes away: that Xi's personal dominance and the external environment remain relatively stable.

Strategic Implications

Provinces will be tasked with executing complex initiatives—housing conversions, industrial upgrades, unified markets—without much flexibility. Campaign-style governance will enforce compliance, but this risks inefficiency and overreach. Structural challenges—weak consumption, high local debt, demographic decline—will be met with incremental rather than transformative measures. Private-sector recovery will remain uneven as firms operate under political uncertainty and regulatory risk. Stability will be preserved, but at the cost of dynamism.

Regarding U.S.-China relations, Xi's tactical focus will be on dealmaking with Donald Trump, but his strategic focus will remain fixed on ensuring that China becomes more strategically independent of the United States. The baseline forecast suggests that tariff truces and structured dialogues will continue, but cooperation on tech, global governance, and international conflicts will remain rare. Mutual suspicion will endure, and the political space for compromise will remain fragile and limited.

> **Effective policy toward Beijing will require balancing firmness with foresight.**

Abroad, China's diplomatic weight will continue to grow, particularly in the Global South. Beijing will lean into its growing "neighborhood first" approach to diplomacy.[16] Infrastructure, trade deals, and investment will anchor China's role in Southeast Asia and beyond. This outreach will serve both economic and geopolitical goals, absorbing capacity and building alliances against Western pressure. In multilateral forums, China will project ambition, given Trump's "America First" policy, but will proceed cautiously in substance, wary of committing economic resources that may be needed at home.

Policy Shaping and Conclusion

Xi Jinping's governance model—anchored in Party control, national security, and technological self-reliance—will continue to dominate China's trajectory in 2026. This centralized approach will provide political stability and policy continuity, but will leave the system vulnerable to bureaucratic inertia, internal shocks, and structural challenges. The tension between control and adaptability will define China's domestic evolution and its international behavior.

China's system is likely to remain stable. Effective policy toward Beijing will require balancing firmness with foresight—deterring coercive actions while sustaining engagement where it serves shared interests. For policymakers overseas, engagement should be pragmatic, selective, and risk-aware. First, cooperation should be prioritized in functional, less politically sensitive domains where mutual benefit is clear, such as healthcare delivery, financial regulation, and environmental governance. Second, economic resilience should be strengthened by diversifying supply chains and reducing critical dependencies. Third, policymakers should use diplomatic, economic, and military means to deter external escalation, while investing in steady channels of communication to reduce the chance of misunderstandings—and in "inside-out" monitoring to anticipate risks and openings.

Endnotes

1 Neil Thomas et al, "Self-Strengthening for Strategic Competition: What to Watch at China's Fourth Plenum," Asia Society, October 20, 2025, https://asiasociety.org/policy-institute/self-strengthening-strategic-competition-what-watch-chinas-fourth-plenum.

2 "The 13th Five-Year Plan," U.S.-China Economic and Security Review Commission, February 14, 2017, https://www.uscc.gov/research/13th-five-year-plan; "Outline of the People's Republic of China 14th Five-Year Plan for National Economic and Social Development and Long-Range Objectives for 2035," Xinhua News Agency, translated by the Center for Security and Emerging Technology, Georgetown University, May 13, 2021, https://cset.georgetown.edu/publication/china-14th-five-year-plan/.

3 Gerard DiPippo, "Focus on the New Economy, Not the Old: Why China's Economic Slowdown Understates Gains," RAND Corporation, February 18, 2025, https://www.rand.org/pubs/commentary/2025/02/focus-on-the-new-economy-not-the-old-why-chinas-economic.html.

4 Michael S. Pollard, Jennifer Bouey, Agnes Xiangzhen Wang, and Rakesh Pandey, "Fertility Decline in China and Its National Military, Structural, and Regime Security," RAND Corporation, September 22, 2025, https://www.rand.org/pubs/research_reports/RRA3372-1.html.

5 Brad W. Setser, "China Is Also Fighting a Trade War with Europe (and Winning)," Council on Foreign Relations, July 28, 2025, https://www.cfr.org/blog/china-also-fighting-trade-war-europe-and-winning; Chad P. Brown, "US-China Trade War Tariffs: An Up-to-Date Chart," Peterson Institute for International Economics, September 25, 2025, https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart.

6 Derrick Wang, "Twelve Years Later, Did China's Sweeping Anticorruption Campaign Deliver?," *The Global Anticorruption Blog*, December 5, 2024, https://globalanticorruptionblog.com/2024/12/05/twelve-years-later-did-chinas-sweeping-anticorruption-campaign-deliver/.

7 "PRC Law on the Protection of State Secrets," China Law Translate, February 27, 2024, https://www.chinalawtranslate.com/en/secrets-law-2024/.

8 "Counter-Espionage Law of the P.R.C. (2023 ed.)," China Law Translate, April 26, 2023, https://www.chinalawtranslate.com/en/counter-espionage-law-2023; Jill Goldenziel, "China's Anti-Espionage Law Raises Foreign Business Risk," Forbes, July 3, 2023, https://www.forbes.com/sites/jillgoldenziel/2023/07/03/chinas-anti-espionage-law-raises-foreign-business-risk/.

9 Katja Drinhausen and Helena Legarda, "'Comprehensive National Security' Unleashed: How Xi's Approach Shapes China's Policies at Home and Abroad," Mercator Institute for China Studies, September 15, 2022, https://merics.org/en/report/comprehensive-national-security-unleashed-how-xis-approach-shapes-chinas-policies-home-and.

10 Arthur R. Kroeber, "Unleashing 'New Quality Productive Forces': China's Strategy for Technology-Led Growth," Brookings Institute, June 4, 2024, https://www.brookings.edu/articles/unleashing-new-quality-productive-forces-chinas-strategy-for-technology-led-growth/.

11 Neil Thomas et al., "'We Must Depend Entirely on Ourselves': Policy, Politics, and U.S.-China Relations at the Fourth Plenum," Asia Society, November 5, 2025, https://asiasociety.org/policy-institute/we-must-depend-entirely-ourselves-policy-politics-and-us-china-relations-fourth-plenum.

12 Victor Shih and Jonathan Elkobi, "Local Government Debt Dynamics in China: An Exploration Through the Lens of Local Government Debt and LGFV Debt," 21st Century China Center, University of California, San Diego, November 27, 2023, https://china.ucsd.edu/_files/2023-report_shih_local-government-debt-dynamics-in-china.pdf.

13 Kevin Yao and Ellen Zhang, "China Unveils $1.4 Trillion Local Debt Package but No Direct Stimulus," Reuters, November 8, 2024, https://www.reuters.com/world/china/china-unveils-steps-tackle-hidden-debt-local-goverments-2024-11-08/.

14 Jamie P. Horsley, "China's New Private Economy Promotion Law: Good Intentions Meet Weak Government Accountability," NPC Observer, May 15, 2025, https://npcobserver.com/2025/05/15/china-private-economy-law-government-accountability/.

15 Neil Thomas and Lobsang Tsering, "Xi's Personal Priorities: What Matters Most to China's Leader?," Asia Society, July 30, 2025, https://asiasociety.org/policy-institute/xis-personal-priorities-what-matters-most-chinas-leader.

16 "Outlook on China's Foreign Policy on Its Neighborhood in the New Era," Embassy of the People's Republic of China in the United States of America, October 24, 2023, https://us.china-embassy.gov.cn/eng/zgyw/202310/t20231024_11167100.htm.

How Will the Next Generation of Chinese Leaders Reconcile Effective Governance and Party Loyalty?

Guoguang Wu

Photo by John Keeble via Getty Images

The Stakes: What Is Most Important to China's Leaders?

The rise to power of China's next generation of leaders, especially those born in the 1970s, will accelerate during the reshuffling of provincial-level personnel in 2026–2027 and the reorganization of the national leadership around the 21st Party Congress in 2027–2028. This generational shift raises a critical question: Will the Chinese Communist Party (CCP) prioritize technocratic pragmatism in its personnel choices—echoing the practices that helped drive four decades of rapid growth—or will it double down on Xi-style political loyalty and ideological conformity? The answer will shape not only China's domestic governance but also its relations with the United States and the wider world.

Core Dilemma: Balancing Loyalty and Governance

Following the death of Mao Zedong in 1976, the CCP adopted a hybrid system of elite management. Political loyalty to the regime was a primary criterion for elite career advancement, though cadres' effectiveness at carrying out their responsibilities in governance was also critical for promotion. China's leaders remained committed to economic development, and an elite management system that highlighted technocratic performance in the context of political loyalty contributed to China's extraordinary growth.

However, Xi Jinping deviated sharply from this development model after assuming the leadership of the CCP in 2012. To concentrate power, he refocused the regime's policy goals away from economic development and toward security—or, at best, he placed security on an equal footing with development.[1] In practice, Xi's policies have led to a decline in governance capability, as evidenced by economic sluggishness, mismanagement of public health crises, and the intensification of international relations.[2]

China's governance after the Cultural Revolution was reestablished by adding in elements of a technocratic meritocracy. Educational background and expertise in engineering, economics, or administration, rather than revolutionary and grassroots experiences, became major qualifications for elite promotion.[3] This continued under Xi's leadership.[4] Among the current provincial leaders born in the 1970s, 43.1% have doctorates and 48.3% have master's degrees.[5] The next generation of cadres will be promoted to higher-level positions as a reward for their outstanding performance in governance, especially in promoting economic growth, strengthening technological progress, and maintaining political stability.

Members of the ascendant generation were educated during China's economic boom, advanced their government careers in an era of national security, and will be expected to implement Xi's policies to promote both regime security and economic development. To advance their careers further, they must demonstrate their political loyalty to Xi Jinping above all else. However, the governance problems they face, such as restoring growth, managing debt, and accelerating innovation, call for pragmatic, technocratic solutions.

In politically significant sectors, loyalty will take priority, while in areas with significant management responsibilities, technocratic performance will be given more weight.

A serious challenge for the next generation of cadres is that further promotion depends more on alignment with Xi's agenda—which is focused on security, Party control, and development within the context of strategic competition with the United States—than on the types of technocratic achievement emphasized by the previous leadership, which prioritized GDP growth, international collaboration, and economic development as a primary source of domestic legitimacy.[6] But many of Xi's policies are not conducive to effective governance or sustainable economic development, and some policy innovations may even invite questions about cadres' loyalty to Xi.

Outlook for 2026

After the reshuffling of provincial leadership positions in the second half of 2026 and the first half of 2027, the next generation might account for more than 60% of provincial leaders, mainly provincial standing committee members and deputy governors—a significant increase from the current 30%. About 30% of incumbent provincial leaders will retire.[7] The most successful members of this generation will accede to the 21st CCP Central Committee in late 2027. At the 20th Party Congress in 2022, those born in the 1970s accounted for 8% of members of central committees.[8] Their share might increase to 40% in 2027, including 10%–15% as full members.[9]

In promoting the next generation of leaders, the CCP's overarching framework will emphasize political loyalty, with the leadership placing differential emphasis between either the security criteria or technocratic competence, depending on the cadres' responsibilities. In politically significant sectors, such as security, propaganda, and Party affairs, political and personal loyalty will take priority, while in areas with significant management responsibilities, such as local governance, economic administration, and regulatory agencies, technocratic performance will be given more weight.

In the current context, political loyalty largely means personal commitment to Xi, but few cadres—especially those who are at the lower levels of the Party-state hierarchy, including most of those born in the 1970s—have opportunities to build personal ties with Xi. Thus, the competition to demonstrate political loyalty depends greatly on personal ties with other high-ranking leaders, such as Li Qiang, Cai Qi, Chen Xi, He Lifeng, and Xi's wife, Peng Liyuan. Factional competition below Xi will be intense amid the reshuffling through 2026-28.

What to Watch

- Xi's leadership has recently escalated **the promotion of next-generation cadres**, especially those born in the 1970s, to provincial leadership positions.[10] Four new provincial governors were born in the 1970s: Liu Jie (b. 1970), governor of Zhejiang since December 2024; Wei Tao (b. 1970), governor of Guangxi since July 2025; Liu Xiaotao (b. 1970), governor of Jiangsu since September 2025; and Lu Dongliang (b. 1973), governor of Shanxi since June 2025.[11]
- Most of these cadres are experienced administrators with **excellent technocratic backgrounds**, notably long careers as managers of state-owned enterprises, and experience with local governance. In addition, six cadres born in the 1970s serve as the third-ranking leaders of CCP provincial committees—positions usually reserved for provincial Party secretaries and governors—accounting for 20% of the total nationwide.

Alternative Scenarios

- **Baseline (most likely): Political loyalty frames technocratic performance.** The most likely scenario is that political purges continue to support Xi's strong position while ensuring cadres' loyalty. At the same time, the promotion of younger cadres will gain speed, and those with good records in improving governance and boosting economic growth will have better promotion opportunities, especially for key economic portfolios (e.g., finance, commerce, tech regulation, and local governance). Xi's leadership will also encourage the next generation of cadres to compete for career advancement by showing off their performance through, for instance, local governance experiments. This outcome will require that Xi remains dominant without political challenge and that the economic slowdown is serious but not catastrophic. Political conformity will dominate, state capacity will be adequate but risk-averse, economic policy will be pragmatic in implementation but framed by Xi's overall program, and local governments will cautiously engage in policy experimentation, fully aware of the political constraints.
- **Alternative 1: Crisis-induced hard-line loyalty.** An alternative scenario would see loyalty criteria fully dominate the promotion process. If a serious challenge to Xi's dominance arises,

or severe domestic unrest or a pandemic occurs—or if an external crisis emerges, such as an escalating confrontation across the Taiwan Strait or a major conflict with the United States—then military and security officials could expand their influence within the power structure. As a result, technocratic performance would be marginalized in the cadre management process. The governance outcome would be further consolidation around Party security. The current economic slowdown has already caused widespread social discontent, and vested interests established during the pre-Xi period are attempting to use both economic troubles and social discontent against Xi. However, because these opposing forces are deeply embedded within CCP institutions, their ability to openly work against Xi is very limited. This constrained and ineffective elite opposition would likely allow Xi to double down on loyalty, centralization, and hard-line governance.

- **Alternative 2 (least likely): Reassertion of technocratic pragmatism.** A wildcard scenario would be that the leadership radically changes its policy direction, allowing the adoption of pro-market and pro-Western elements in governance. This would help relax cadres from political constraints and play to their strengths as technocrats. The fundamental precondition for this pathway would be Xi's loss of power, which might be triggered by a rapid deterioration in his health, an unexpected economic shock, a financial crash, or a coup d'état. It would open many possibilities for China's future, including the reemergence of technocratic pragmatism.

Strategic Implications

Domestic China

- **Baseline (most likely):** Governance remains highly centralized, with loyalty-first cadres in top posts and technocratic abilities emphasized in execution roles. This results in a cautious, risk-averse policymaking environment. Local governments face fiscal strain as a result of land revenue collapse and heavy debt, but they lack authority and political space to innovate. Economic growth stabilizes at a modest pace (around the government target of 5%).[12]
- **Alternative 1:** Political loyalty eclipses pragmatism. Decision-making is somehow militarized, local governments become rigid executors of central edicts, and innovation further declines. Economic stagnation deepens, social discontent rises, and state capacity weakens despite harsher repression.
- **Alternative 2 (least likely):** Pragmatism reemerges. Technocrats have greater influence, potentially reviving policies on fiscal decentralization, market access, and private-sector vitality. Local governments regain room to experiment with policies. Growth may recover modestly. Cadre corruption again becomes rampant; economic inequality worsens. The probability of frequent outbursts of social discontent rises.

Local Governance

- **Baseline (most likely):** Local governments face declining fiscal health and limited autonomy. The focus on political loyalty discourages innovation. Cadres become risk-averse, preferring to over-comply with central directives. State capacity is maintained but ossified, which is effective for control but weak for adaptive problem-solving.

- **Alternative 1:** "Social stability maintenance" overwhelms local governance. Local governments become mere instruments of central security priorities, and their role in social and economic management diminishes. Errors at the grassroots level multiply because officials fear punishment more than they seek effective outcomes.
- **Alternative 2 (least likely):** Local governments gain greater discretion to innovate. Fiscal reforms (e.g., broader revenue bases) may be introduced. Rent-seeking prevails; power-money alliances dominate.

U.S.-China Relations

- **Baseline (most likely):** Relations remain adversarial but stable. Strategic competition intensifies across trade, finance, technology, security, geopolitics, and global governance, but cooperation in crisis management continues, while connections in trade and technology persist despite growing strain.
- **Alternative 1:** Relations deteriorate sharply. A crisis-driven, loyalty-first leadership escalates nationalist rhetoric, adopts more aggressive stances on Taiwan and the South China Sea, and treats U.S. competition as existential. The risk of military conflict rises.
- **Alternative 2 (least likely):** Tensions are reduced, especially in the economic, trade, and technology arenas. The geopolitical rivalry persists. The CCP is likely to intensify and refine its influence operations, dramatically expanding its reach into the U.S. economy, universities, the technology sector, politics, and public opinion, making such operations even more effective.

Global and Regional Dynamics

- **Baseline (most likely):** China remains a weighty, cautious, and ambitious actor in global politics, economy, and institutions. Its economy underperforms relative to its potential, dampening global markets. Regional neighbors hedge between U.S. security guarantees and Chinese economic ties.
- **Alternative 1:** China doubles down on coercive diplomacy and military posturing. Countries have to choose between China and its rivals; multilateral institutions fracture under U.S.-China confrontation.
- **Alternative 2 (least likely):** A pragmatic China emerges as a powerful global leader as it seeks to establish a China-style world order.

Policy Shaping and Conclusion

The next generation of cadres, especially the cohort born in the 1970s, will ascend in the 2026–2027 provincial leadership reshuffle. Their promotion will highlight the CCP's difficult choice between two imperatives: maintaining Party loyalty as the bedrock of regime security, or reviving technocratic effectiveness to improve growth and governance.

Evidence shows that political and personal loyalty remain the principal criteria for career advancement, while technocratic competence persists as a necessary—if subordinate—qualification for managing complex governance challenges and strengthening the regime's capabilities in governance and legitimacy. Tightrope walking will sustain China's short-term stability but produce a risk-averse bureaucracy, stifling local innovation and eroding long-term capacity.

The regime could easily drift toward a full loyalty-first model and governance could become brittle and repressive, amplifying economic stagnation and social frustration. A reassertion of technocratic pragmatism might reinvigorate growth and governance, but this outcome is improbable without major political disruption. The world will need to prepare to deal with a China that continues its current trajectory despite the rise of the younger generation of leaders.

Endnotes

1 Kevin Rudd, "Xi Jinping, the Rise of Ideological Man, and the Acceleration of Radical Change in China," address to the Stockholm China Forum at the German Marshall Fund, Washington, D.C., October 24, 2022, https://www.gmfus.org/news/xi-jinping-rise-ideological-man-and-acceleration-radical-change-china.

2 "Decoding China's Economic Slowdown," CCA-SCCEI Roundtable Summary Report, Asia Society Policy Institute, July 15, 2024, https://asiasociety.org/policy-institute/decoding-chinas-economic-slowdown; Dhruv Khullar, "The Dire Aftermath of China's Untenable 'Zero Covid' Policy," *The New Yorker*, January 8, 2023, https://www.newyorker.com/magazine/2023/01/16/the-dire-aftermath-of-chinas-untenable-zero-covid-policy; Joshua Kurlantzick, "Why China's Global Image Is Getting Worse," Council on Foreign Relations, January 24, 2022, https://www.cfr.org/in-brief/why-chinas-global-image-getting-worse.

3 Zhongmin Wu, "The Evolutions and Issues of China's Elite Groups," in *The Theory of Chinese Modernization*, by Zhongmin Wu (Singapore: Palgrave Macmillan, 2025), 271–343.

4 Guoguang Wu, "The Rise of CCP Young Elites and Xi Jinping's 'Tsinghua New Army,'" Asia Society Policy Institute, February 12, 2025, https://asiasociety.org/policy-institute/rise-ccp-young-elites-and-xi-jinpings-tsinghua-new-army.

5 Author's calculations.

6 Sheena Chestnut Greitens, "Xi's Security Obsession," *Foreign Affairs*, July 28, 2023, https://www.foreignaffairs.com/united-states/xis-security-obsession.

7 Author's calculations.

8 Including the Central Committee of the Chinese Communist Party and the Central Disciplinary Inspection Committee, although only as alternate members of the Central Committee.

9 Author's calculations.

10 William Zheng, "China Makes Room for Younger Faces on Middle Rungs of Communist Party Promotions Ladder," *South China Morning Post*, December 28, 2024, https://www.scmp.com/news/china/politics/article/3292474/china-makes-room-younger-faces-middle-rungs-communist-party-promotions-ladder.

11 "Liu Jie Was Elected Governor of Zhejiang Province," Shangguan News, January 17, 2025, https://m.jfdaily.com/wx/detail.do?id=844252; 55-Year-Old Wei Tao Is Promoted to Chairman of the Guangxi Autonomous Region Government, Replacing the Former Lan Tianli," Caixin, July 18, 2025, https://china.caixin.com/2025-07-18/102342452.html; "Luo Dongliang Was Elected Governor of Shanxi Province," Ifeng News, June 16, 2025, https://news.ifeng.com/c/8kEKapUbL8l.

12 Author's estimation.

Can China Reconcile Private-Sector Vitality with State-Led Innovation?

Lizzi C. Lee

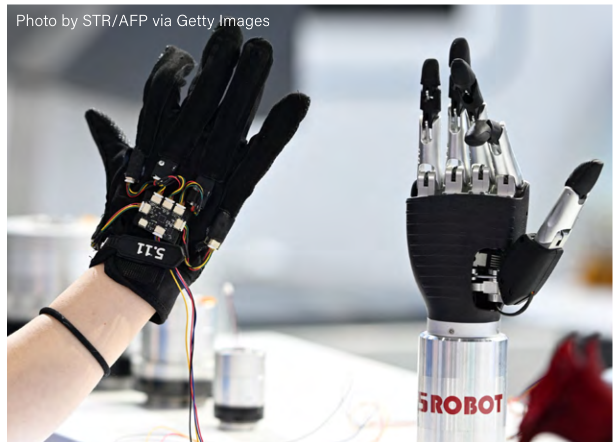


Photo by STR/AFP via Getty Images

The Stakes: No Substitute for Private-Sector Dynamism

Xi Jinping's effort to recalibrate the state–private sector relationship is not merely a pendulum swing back toward pragmatism. It is a high-stakes bid to engineer a new equilibrium that preserves Chinese Communist Party control while unleashing the entrepreneurial energy needed to compete in the U.S.-China contest, which now revolves around technology.

The year 2026 will be pivotal. Levels of business and consumer confidence—already fragile after sweeping tech crackdowns, zero-COVID whiplash, and erratic local enforcement—have fallen to lows not seen since the 1990s.[1] Global capital has retreated. Meanwhile, U.S. export controls and intensifying tech competition have exposed the limits of a state-driven innovation model that has long been better at scaling than at discovery.[2] Layer on China's demographic downturn and the aftershocks of a property-led financial contraction, and the conclusion is clear: No amount of administrative will can substitute for the dynamism that once powered China's economic miracle.[3]

Yet tentative signs of revival have emerged: Jack Ma's quiet return; carefully choreographed parades of "model entrepreneurs" at multiple high-level press events; passage of China's first comprehensive Private Economy Promotion Law; and, not least, the "DeepSeek moment," a startling open-weight artificial intelligence (AI) breakthrough by Chinese-trained computer scientists and entrepreneurs that jolted Beijing into recognizing anew the irreplaceable role of private entrepreneurs.[4]

By 2026, this recalibration will likely reveal whether China can adapt in time to shape or even lead the next global innovation wave, or whether its contradictions will calcify, leaving it suspended between ambition and control.

Core Dilemma: Entrepreneurs in a Bind

At the heart of this question lies a dilemma: The entrepreneurial energy that helped China build formidable global e-commerce platforms, and accelerate into global leadership in electric vehicles (EVs) and green tech, now tests the Party's political comfort zone. This is the "golden goose" dilemma: The entrepreneurial class that laid the eggs of China's tech revolution are also threatening, in the Party's eyes, to fly too far afield. Xi's strategy is not to kill the goose, but to tether it. China's private entrepreneurs are expected to align with Party priorities, to pivot in favor of projects with higher "national relevance," and to avoid partnerships that might raise concerns over geopolitical exposure.

Three strategic tensions define this evolving state–private sector relationship: openness versus control, dependence versus mistrust, and political will versus execution.

1. **Openness versus control:** Innovation does not thrive on a leash. Breakthroughs in frontier sectors require global collaboration, data flows, and access to foreign capital and expertise. Yet national security doctrine increasingly demands domestic substitution and tighter control. For now, China's innovation model remains optimized for scaling and commercializing existing technologies (1-to-100), but not yet structurally positioned for paradigm-shifting breakthroughs (0-to-1).
2. **Dependence versus mistrust:** The private sector is central to China's geopolitical competition and ambitions, yet this is precisely the domain where the Party's anxieties and mistrust of the private sector run deepest. China's economic and geopolitical ascent has, ironically, emboldened the Party to reassert control with an ever-expanding set of regulatory and legal tools. Paradoxically, China's rise also makes the need for private innovation more acute. Beijing increasingly depends on private firms to deliver breakthroughs at the cutting edge, especially under intensifying U.S.-China tech competition.[5]
3. **Political will versus execution:** Xi's vision is not to suppress the private sector but to discipline and re-channel it. On the ground, however, entrepreneurs navigate a nuanced and, at times, contradictory environment. They are told, sometimes in Xi's own speeches, that they are partners in national development. Yet in practice, they remain vulnerable to politically motivated audits, cross-provincial legal actions, and opaque "red lines."

Beijing has recently invested heavily in the symbolic rehabilitation of the private sector. But unless pageantry is matched by observable execution, China risks stalling at the halfway point.

To its credit, Beijing has recently invested heavily in the symbolic rehabilitation of the private sector through televised events, handpicked business leaders, and narrative shifts in official discourse. But unless pageantry is matched by observable execution, including protections for property rights, reliable dispute resolution, and consistent regulatory enforcement, China risks stalling at the halfway point.

In short, entrepreneurs are asked to be obedient innovators, strategic risk-takers, and politically reliable market actors. But the system still lacks the institutional maturity to support that combination at scale.

Outlook for 2026

The most likely outcome is a managed hybrid that keeps the innovation engine running in targeted zones, while broader uncertainty continues to sap the system of its full potential.

Bright spots will remain. Robotics, EVs, AI+ applications, green infrastructure, and advanced manufacturing niches will continue to generate impressive breakthroughs, driven by private firms whose commercial goals align with Party priorities. But their impact on China's broader economic fundamentals will be more muted than expected. Recovery will be uneven. Consumption may inch upward. But structural bottlenecks, including real estate overhang, local government debt, and demographic drag, will slow the broader rebound.

The Party will benefit from a partial revival of private creativity, but outside the favored "charmed circle," entrepreneurial energy will remain subdued. The result: China remains competitive in targeted innovation areas, but falls short of unleashing the entrepreneurial dynamism required to sustain broad-based high-quality growth. Beijing's hybrid model delivers targeted wins, but systemic constraints persist.

Conditions and Contingencies

Whether China remains on its path toward a controlled revival or breaks toward stagnation will hinge on a set of interlocking conditions, both internal and external, that shape the way entrepreneurs and the state interpret the rules of the game.

Institutional Factors

The credibility of China's economic revival will depend on how institutions function in practice—through enforcement, adjudication, and the treatment of private actors.

- **Positive triggers.** If Beijing successfully moves toward controlled revival, we will see signs of consistent enforcement of China's new legal frameworks, most notably the Private Economy Promotion Law, that move beyond symbolic reassurance. Property rights protections, nondiscriminatory access to capital, and legal recourse for entrepreneurs will be demonstrated in real-world adjudications and enforcement behavior.
- **Negative triggers.** If China breaks toward stagnation, we will see pervasive practices like cross-jurisdictional "long-arm fishing," coercive investigations, and discretionary enforcement of national security laws, all of which will perpetuate a climate of uncertainty—often rooted in the fiscal difficulties of local governments, which, in turn, will trigger many of these hostile moves toward private enterprises and erode whatever trust that central signaling hopes to build.

Geopolitical Environment

The geopolitical environment, especially the trajectory of U.S.-China competition, will remain a critical enabling or disabling condition.

- **Positive triggers.** Even in a more inward-looking model, China's innovation system still depend on flows of talent, global capital, and access to cross-border research ecosystems. Easing of tensions and pragmatic engagement would help preserve these channels, smoothing frictions and reinforcing China's capacity to integrate into global innovation networks.
- **Negative triggers.** If there is a deepening of the U.S.-led coordination on technology export controls with allies in Europe, Japan, and South Korea, China's access to advanced chips, tools, and talent could be further constrained, tightening the squeeze on its innovation capacity. In this case, China's model may falter under the weight of its own insulation. Yet the cohesion of this alliance remains uncertain, as divergent commercial interests and exposure to the Chinese market continue to test how far partners are willing to align with Washington's strategy.

Political Signs and Signals

Beyond institutions, political cues from Beijing will shape perceptions of safety, trust, and opportunity. The behavior of the state toward entrepreneurs, capital, and public exemplars will serve as a strong barometer of whether confidence in China's private sector can viably return.

Entrepreneurs are asked to be obedient innovators, strategic risk-takers, and politically reliable market actors. But the system still lacks the institutional maturity to support that combination at scale.

- **Positive triggers.** The way Beijing cultivates and promotes "entrepreneurial exemplars" will serve as a credible signal.[6] What matters is whether these selective endorsements spark a broader revival of the animal spirits of investors and entrepreneurs. A genuine turnaround would also be reflected in the behavior of venture and private equity capital: A return of patient capital would signal a renewed appetite for risk-taking. Signs such as faster initial public offering (IPO) approvals, the steady revival of domestic capital markets, and broader recovery beyond a few state-prioritized sectors (e.g., in hospitality and catering, consumer services and retail, and cultural and entertainment industries) and among small private firms would indicate a real recovery of confidence. Equally telling would be the return of entrepreneurs choosing to build and stay in China, suggesting that personal and asset security concerns are easing and that extrajudicial practices like *liuzhi* (retention for investigation) are receding.
- **Negative triggers.** Persistent caution among investors, a lack of viable exit options, and reluctance among entrepreneurs to reinvest or expand would point to eroding trust in the system. Visible red flags would include a further exodus of entrepreneurs and assets driven by personal safety concerns, renewed crackdowns on prominent business figures, abrupt

regulatory shifts, and investigations perceived as politically charged that reignite fears of arbitrary enforcement.

In short, if the system can credibly align political will, institutional and legal reform, and bureaucratic execution against the backdrop of geopolitical tensions, then the hybrid model may endure and even evolve.

What to Watch

Positive Signals: Toward Entrepreneurial Revival

- A critical leading indicator of entrepreneurial revival will be the recovery and expansion of **risk-taking behavior** among entrepreneurs and investors. Sustained increases in private-sector research and development (R&D) spending, venture activity, and new firm formation, particularly beyond the Party's few strategic favorites, would suggest a reawakening of entrepreneurial confidence. Importantly, this revival must be broad-based. The return of genuine early-stage investment dynamism would signal that the chill resulting from years of regulatory volatility is beginning to lift. Similarly, a broadening revival of IPO activity, especially in China's A- and H-share markets, would indicate that capital markets are once again functioning as viable capital resources and exit paths for private firms.
- **Legal and institutional developments** offer another important window. High-profile judicial decisions that affirm the rights of private firms or entrepreneurs would indicate not just rhetorical support for the private sector, but institutional willingness to protect it. Such rulings would carry outsized signaling value in a system in which legal predictability has often yielded to political expediency.

Negative Signals: Toward Private-Sector Retrenchment

- Several negative signals would point to a system slipping back into a defensive crouch. A renewed wave of **regulatory crackdowns** would confirm that tolerance for private influence remains fragile. Similarly, intensifying national-security scrutiny of business activities, especially those involving foreign partnerships or data flows, would indicate a hardening of ideological instincts over economic pragmatism.
- Perhaps the most damaging signal would be the abuse of **exit bans and extralegal detention** beyond the bounds of the rule of law, targeting high-profile domestic entrepreneurs or international businesspeople. These actions, even if framed as one-offs, would reinforce perceptions of politically motivated campaigns instead of rules-based governance.

Alternative Scenarios

- **Baseline (most likely): Managed hybrid.** Innovation continues to thrive in state-aligned verticals tied to national strategic objectives. Policy support remains targeted, and some bright spots continue to emerge. However, risk appetite across the broader private sector remains muted. While the government reaps gains from breakthroughs, it falls short of revitalizing the broader entrepreneurial ecosystem.
- **Alternative 1: "China Renaissance."** Xi Jinping and the Party leadership commit to a deeper recalibration, including meaningful legal reforms. Institutional signals become more consistent, local governments recalibrate their behavior, and entrepreneurs begin to trust that political risk is not an ever-present threat. The result is a broad-based resurgence of entrepreneurial confidence. Investment flows back into innovation ecosystems, not just in tech but also in services, retail, and other consumer-facing sectors. China positions itself as a global leader in frontier technologies. International partners recalibrate their expectations, and China reasserts itself as a more flexible, competitive, and sustainable innovation power.
- **Alternative 2 (least likely): "Japanification with Soviet Characteristics."** Internal miscalculations or external shocks, such as a rupture in U.S.-China tech negotiations, reinforce the Party's instinct to insulate itself and to double down on security over development, pushing the system back toward a posture of intensified control. Tolerance for private-sector independence evaporates. Private firms are even further marginalized by the state apparatus. Entrepreneurial talent and capital exit the country or retrench into a wait-and-hold stance. The result is gradual stagnation: Growth slows structurally, institutional reform stalls, and the drag on the macroeconomy deepens. Unlike Japan's lost decades, however, this version is compounded by ideological rigidity and isolation, leaving China not only economically dulled but increasingly cut off from global flows of knowledge, capital, and trust. It is Japanification in its economic logic—where demographic decline, debt overhang, and policy inertia converge to suppress risk-taking and entrench stagnation—but with Soviet characteristics in its political logic: the concentration of power, overconfidence in the state's ability to dictate economic prosperity, and the subordination of economic vitality to ideological control.

Strategic Implications

Domestically, a successful balancing of private-sector vitality and state-led innovation would mark a major institutional achievement. It would validate the Party's long-standing assertion that China can chart its own model of modernization, distinct from Western liberal capitalism, that combines political centralization with dynamic, market-led technological advancement. In practical terms, such a model would offer a potent boost to Party legitimacy at a time when structural growth headwinds, youth unemployment, and intergenerational inequality are placing unprecedented strain on the social contract.

By contrast, failure to reconcile this tension would likely harden existing structural constraints.

The result would be slower potential growth, diminished policy room for maneuvering, and rising frustration—particularly among the younger, urban populations most sensitive to signals of opportunity and inclusion. Such an outcome would deepen the credibility deficit between the Party's aspirational messaging and the lived economic reality.

In terms of U.S.-China relations, a managed-hybrid outcome—in which China achieves targeted innovation gains within politically permissible boundaries—would keep the strategic competition intense but relatively stable. A full-fledged "China Renaissance," however, could force a sharper reckoning in Washington. The United States may be compelled to reevaluate its domestic industrial policy, immigration strategy, and R&D frameworks. Paradoxically, such a scenario could serve as a wake-up call that revitalizes U.S. innovation and global competitiveness.

A successful balancing of private-sector vitality and state-led innovation would mark a major institutional achievement.

On the other end of the spectrum, a "Japanification with Soviet characteristics" scenario, in which China slips into stagnation under tightening political control, might initially appear to reduce the intensity of rivalry. Yet such an outcome could prove more dangerous over time. An insecure and economically stagnant China may become more unpredictable in its foreign policy, more suspicious of international engagement, and more reliant on nationalism as a substitute for growth.

Globally, if China can harness its private-sector innovation in strategic arenas, it could position itself as a rule maker in tech governance. Emerging economies may look to it not just for capital and infrastructure but as a model of state-guided ascent, expanding China's role in shaping the next wave of globalization.

Policy Shaping and Conclusion

China's ability to meet its goals in technological self-reliance, productivity enhancement, and global competitiveness depends on a revitalized private sector. This interdependence creates space for both domestic policymakers and international stakeholders to shape outcomes that reduce systemic risk and support more sustainable growth.

For Beijing, the central challenge lies in managing the blurred boundaries between state and private enterprise—now complicated by emerging technologies that demand clearer legal and regulatory frameworks. Even harder is realigning local government incentives, since many private-sector frictions stem from fiscally strained subnational actors. For global business and international partners, China's trajectory remains both a risk and an opportunity. The same constraints on entrepreneurship may also push Beijing to recalibrate its engagement with global capital, technology, and ideas. This moment could offer a limited but meaningful chance to promote greater transparency, stronger intellectual property protections, and more reciprocal market access.

Endnotes

1 "Chinese Consumer Confidence," Trading Economics, accessed October 17, 2025, https://zh.tradingeconomics.com/china/consumer-confidence; Casey Hall, "US Businesses' Optimism in China Falls to Record Low, Survey Shows," Reuters, September 11, 2024, https://www.reuters.com/markets/us-businesses-optimism-china-falls-record-low-survey-shows-2024-09-12/.

2 Demetri Sevastopulo, "US Tightens Export Controls on Chinese Companies," *Financial Times*, September 29, 2025, https://www.ft.com/content/4354c8b7-1abf-4aa3-9314-ba723c8a1cfd.

3 Michael S. Pollard, Jennifer Bouey, Agnes Xiangzhen Wang, and Rakesh Pandey, "Fertility Decline in China and Its National Military, Structural, and Regime Security," RAND Corporation, September 22, 2025, https://www.rand.org/pubs/research_reports/RRA3372-1.html.

4 "Alibaba Founder Jack Ma Returns, 5 Years After Largely Disappearing from Public View," NPR, March 1, 2025, https://www.npr.org/2025/03/01/nx-s1-5308604/alibaba-founder-jack-ma-returns-5-years-after-largely-disappearing-from-public-view; Lizzi C. Lee and Huiyan Li, "China Has Picked Its New Model Entrepreneurs," *Foreign Policy*, July 30, 2025, https://foreignpolicy.com/2025/07/30/china-private-sector-entrepreneurs-xi-jinping-tech/; Jamie P. Horsley, "China's New Private Economy Promotion Law: Good Intentions Meet Weak Government Accountability," NPC Observer, May 15, 2025, https://npcobserver.com/2025/05/15/china-private-economy-law-government-accountability/; "China's Quiet DeepSeek Moment in Biotech: A Rapid Rise, Potential Risks, and Global Implications," Asia Society, March 14, 2025, https://asiasociety.org/video/chinas-quiet-deepseek-moment-biotech-rapid-rise-potential-risks-and-global-implications.

5 Grace Wang, "'I Do Not Care Who My Competitor Is'—China's Private Economy and Technological Innovation," *Global Policy*, May 6, 2025, https://www.globalpolicyjournal.com/blog/06/05/2025/i-do-not-care-who-my-competitor-chinas-private-economy-and-technological-innovation.

6 Lee and Li, "China Has Picked Its New Model Entrepreneurs."

Can Beijing Truly Pivot Toward a Consumption-Led Economy?

Diana Choyleva


Photo by Pedro Pardo/AFP via Getty Images

The Stakes: Long-Term Economic Resilience

For two decades, Beijing has pledged to rebalance China's economy toward household consumption, yet exports and investment remain the dominant drivers of growth.[1] Despite real consumer spending growing at 9% annually—well above the 2% rate in the United States—consumption's share of gross domestic product (GDP) reached only 41% in 2023, far below the United States' 69%. The reason is that Beijing has prioritized industrialization, with investment surging from 28% of GDP in 2001 to a peak of 44% in 2014; currently, it stands at 40%.[2]

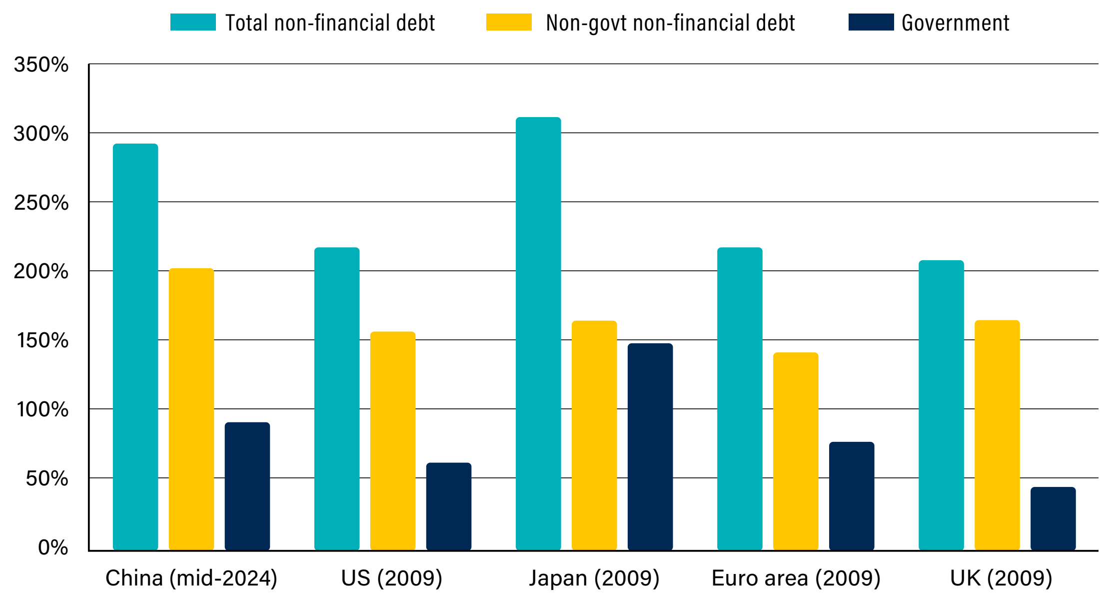
Slumping investment returns, mounting bad debt, and escalating trade tensions have pushed Beijing to renew its efforts to pivot toward consumption. The fundamental question is not whether consumption-led growth is economically desirable or a priority for China's leadership, but whether Beijing possesses the political resolve to accept the 2%–3% annual GDP growth that genuine rebalancing would require.

This question sits at the heart of China's economic future, and it has profound global implications. Since September 2024's Politburo meeting, Beijing has fundamentally shifted its understanding of consumption's strategic importance.[3]

Beijing's pivot represents more than short-term GDP support; it reflects a recognition that consumption is essential for long-term economic resilience and national security. A recent *Qiushi* essay from the National Development and Reform Commission made this explicit: Strong consumer demand is now essential to national security.[4] The essay argued that robust domestic markets and internal self-sufficiency are necessary to maintain social stability under "extreme circumstances." Consumption is now framed as a pillar of economic development and national security.

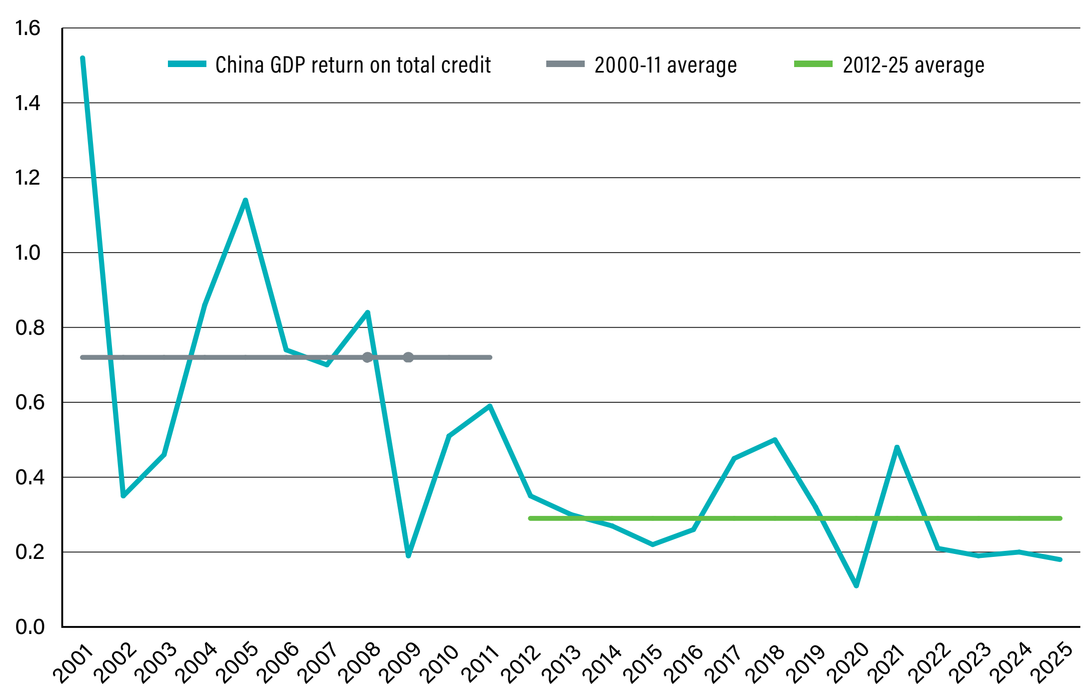
Internationally, escalating trade tensions have reinforced that domestic demand must become the economy's foundation. China's nonfinancial debt has surged to 292% of GDP, while returns on

Debt to GDP, international comparison



Source: Enodo Economics, CEIC

China GDP return on credit



Source: Enodo Economics, CEIC

nonfinancial, nongovernment credit have been halved, declining to 0.3%.[5] Manufacturing overcapacity has triggered defensive responses worldwide, from U.S. tariffs to European Union investigations.

These deteriorating fundamentals create a political imperative: Without genuine consumer-led growth, social stability becomes increasingly difficult to maintain. China's leadership can no longer rely on industrial policy and investment to deliver the output and income growth needed to ensure its political legitimacy.

The year 2026 marks the beginning of China's 15th Five-Year Plan, when Beijing's consumption strategy will be either institutionalized or abandoned. The Fourth Plenum's communiqué and subsequent speeches have marked the clearest signal yet that Beijing has moved consumption-led growth from aspiration to a strategic imperative.[6] Whether Beijing can sustain this commitment will determine China's economic trajectory and global market impact for years to come.

Core Dilemma: Can Beijing Commit to a New Growth Model?

Beijing faces a fundamental contradiction between recognizing that consumption-led growth is essential for survival and maintaining its commitment to state-led technological supremacy.[7] This tension goes beyond policy preferences. Pursuing consumption-led growth requires the state to give up control in key areas: redirecting income and wealth from local governments and state-owned firms to households; allowing individuals to determine their own spending priorities, potentially away from government-prioritized sectors; ending the financial repression of households by letting markets determine the cost of capital; and relying on the private sector to drive innovation.

Xi Jinping's governance philosophy emphasizes Communist Party control and national security through state dominance of strategic sectors. Consumption-led growth demands the opposite.

Meanwhile, continuing to direct domestic savings—currently at artificially low rates—toward investments in chosen technological priorities risks even greater capital misallocation at a time when China has already exhausted the capacity for it, having pursued this model far longer than Japan or Korea ever did.[8]

The scale of rebalancing makes this particularly challenging. Genuine rebalancing would mean households' income share rising from 61% of GDP to nearly 70%, a redistribution that would necessarily come at the expense of government revenues and state enterprise profits, which currently fund technological ambitions.[9] Local governments would need to shift from infrastructure investment to social transfers, while state-owned enterprises would face pressure to pay higher dividends to households rather than reinvest in industrial capacity.

Equally difficult is the required ideological shift. Xi Jinping's governance philosophy emphasizes Communist Party control and national security through state dominance of strategic sectors.[10]

Consumption-led growth demands the opposite: trusting market mechanisms, expanding space for private entrepreneurs, and allowing household preferences greater influence over resource allocation.

The timing makes this contradiction acute. Just as economic fundamentals are forcing Beijing to embrace consumption-led growth, geopolitical competition is intensifying the drive toward technological self-reliance. The leadership cannot easily explain to its people and its constituents why China should accept slower growth and reduced state control when facing what Beijing frames as an existential technological contest.

Outlook for 2026

The elevation of consumer demand as a priority has been reflected in policy documents since late 2024. December's Central Economic Work Conference placed boosting household consumption at the top of the agenda.[11] The March 2025 Special Action Plan on Consumption laid out the leadership's priorities—from income support and burden reduction to optimizing the consumption environment.[12]

The October 2025 Fourth Party Plenum further institutionalized this commitment, with consumption-led growth formally incorporated into the draft 15th Five-Year Plan framework. The Plenum's work report emphasized that "new demand will lead new supply, and new supply will create new demand," signaling that household demand expansion would serve as a core pillar of China's economic strategy through 2030.[13]

While the strategic intent is clear, Beijing's chosen policy path is suboptimal, and implementation remains gradual. China's approach to stimulating consumption remains shaped by supply-side logic.[14] Even trade-in subsidy programs are industrial policy in disguise—aimed at upgrading production rather than unleashing household demand, producing only temporary boosts.

Beijing's resolve remains untested by sustained economic pressure. If the leadership can stay the course through the next five years, consumption's share of real GDP will grow at a much faster pace than it did during 2010–2019, but with annual GDP growth constrained to 2%–3% at best. Therefore, 2026 will be a crucial test of whether political commitment to structural rebalancing can withstand growth target pressures.[15]

The most likely outcome is gradual progress under constant pressure. Beijing will continue its pro-consumption rhetoric and incremental measures, but it will likely waver when quarterly growth consistently drops below 3%. The leadership will face intense internal pressure to restore investment-led stimulus, particularly from local governments desperate for fiscal relief and from state-owned enterprises protecting their resource allocation.

This partial commitment is likely to produce some progress on rebalancing—consumption's share of GDP may rise from 41% to 46%–48% over five years—but fall short of the accelerated transition that economic fundamentals demand.[16] The result will be sustained policy uncertainty as Beijing oscillates between consumption-focused measures and growth-seeking investment, creating volatility and confusion about China's longer-term economic direction.

Conditions and Contingencies

Beijing's consumption strategy operates on three fronts: boosting household income, redistributing income toward higher-spending households, and lowering the household savings rate.[17] While conceptually sound, this approach avoids the most effective tools, settling for second-best solutions that will, in the most optimistic scenario, only deliver gradual rather than transformational results.

The Asset Income Challenge

The critical constraint on Chinese consumption is not wage income—China's wage share of GDP matches that of the United States—but household asset income.[18] Chinese households are large net savers, yet they earn artificially low returns because of financial repression. The optimal solution would involve higher deposit rates, as the bulk of households' financial wealth is in interest-bearing deposits. Central government debt would need to rise to smooth the necessary adjustments in the state-owned sector, the main beneficiary of artificially low bank rates. This unorthodox approach, however, finds no support among Chinese policymakers.

The result will be sustained policy uncertainty as Beijing oscillates between consumption-focused measures and growth-seeking investment, creating volatility and confusion about China's longer-term economic direction.

Instead, Beijing pursues second-best alternatives: redirecting household wealth from property into equity markets through professionalization and higher dividend requirements, and developing rental markets by increasing low-cost rental supply.[19] Rather than allowing markets to set rental prices, the government uses policy measures to manage affordability—again avoiding the direct price mechanism.[20]

These reforms show promise but require time. The equity market expansion could meaningfully boost household asset income if it is accompanied by genuine corporate governance improvements and dividend policies. The rental market development will provide real income gains by reducing housing-cost burdens, particularly for younger urban households.

Redistribution and Its Limitations

The second prong involves redistributing income from households with low marginal propensity to consume to those with high marginal propensity to consume, through expanded social transfers such as housing and education cost support and rural support programs.[21] Although this approach is theoretically sound, it faces practical uncertainties. The spending propensities of different income groups may not align with expectations, and absolute spending increases among beneficiaries may not offset spending reductions among those facing higher taxes or reduced income.

Healthcare costs, education expenses, eldercare burdens, and inadequate social security also underpin China's excessively high savings rate.[22] Boosting social security transfers helps lower households' desire to save too much of their income. But this measure is likely to be less potent than addressing the decades-long household financial repression—the low return on household wealth leading to excessive precautionary savings.

The Missing Piece: Ending Financial Repression

The most potent and likely the fastest-acting tool—ending household financial repression through higher interest rates—remains off the table. Without market-determined returns on savings, households will continue to save excessively and seek alternative stores of value, whether in property, overseas assets, or other nonproductive channels.

Beijing's strategy will likely generate measurable progress over the next five years, particularly through equity and rental market development. However, refusing to address financial repression directly means that consumption gains will remain gradual and incomplete, requiring extended time frames and increasing the likelihood of relapses toward growth led by investment and/or exports instead.

What to Watch

Determining whether Beijing can sustain its consumption-led pivot requires monitoring key indicators that will reveal both policy commitment and underlying economic pressures:

- **Maintaining consumption policies** despite growth pressure in order to signal authentic resolve.
- **Integration of consumption metrics** into local government performance evaluations and five-year plan targets.
- Financial market reforms to **end household financial repression**, allowing higher deposit rates and expanding household investment options.
- **Return to investment-led stimulus** during GDP growth slowdowns, such as large infrastructure packages or property market easing.
- Local governments **prioritizing infrastructure over social transfers** when facing budget constraints.
- **Household asset income trajectory** relative to GDP from equity market development and dividend policies.

- **Broad-based consumption growth** rather than consumption focused solely on subsidy-dependent categories like electric vehicles.
- Consumption growth **without excessive household debt accumulation**.

Alternative Scenarios

- **Baseline (most likely): Gradual progress under pressure.** Beijing maintains its consumption rhetoric but wavers when growth drops below 3%. Incremental measures, such as social transfers and modest equity reforms, result in an increase in consumption's share of GDP from 41% to 46%–48% in the next five years. However, policy oscillation between consumption support and investment stimulus creates market uncertainty while achieving insufficient structural change.
- **Alternative 1: Resolute structural transition.** Leadership accepts 2%–3% GDP growth as the price of genuine rebalancing. Consumption metrics become institutionalized in performance evaluations, equity market development meaningfully boosts household asset income, and consumption's share of GDP reaches 50%–55% by the end of the 15th Five-Year Plan. This scenario requires exceptional political discipline to maintain the course.
- **Alternative 2 (least likely): Growth target capitulation.** Political pressure forces Beijing to abandon the consumption strategy as GDP approaches 2%. We see a return to investment-led stimulus, property easing, and export promotion as Beijing tries to restore traditional growth rates. The attempt to postpone structural problems most likely fails.

Strategic Implications

Domestically, the baseline scenario creates extended economic volatility as policy oscillation between consumption and investment priorities generates uncertainty. Partial reforms prolong adjustment pain, and rebalancing benefits accrue slowly.

Whether Beijing can sustain this commitment will determine China's economic trajectory and global market impact for years to come.

Alternatively, resolute structural transition produces a more sustainable economic model with slower GDP growth. Household-income and welfare improvements provide alternative sources of legitimacy, while equity market development creates new wealth-building opportunities.

In the area of U.S.-China relations, successful consumption rebalancing reduces bilateral goods trade surpluses and some trade tensions while maintaining strategic technological rivalry. The baseline scenario perpetuates trade conflicts amid policy uncertainty. Alternatively, growth target capitulation triggers the most severe trade wars as China pursues desperate export-led growth through currency manipulation and subsidies.

On the global stage, genuine Chinese consumption growth creates significant opportunities for export-driven economies, particularly in consumer goods and services. The baseline scenario generates market uncertainty as companies navigate unpredictable Chinese demand cycles. Chinese capitulation destabilizes global markets through export flooding and potential financial contagion, particularly pressuring emerging markets.

Policy Shaping and Conclusion

China's shift toward a consumption-led growth model will require not only the right policy design but also political endurance. Sustained rebalancing calls for structural redistribution from the state sector to households, a relaxation of financial repression, and acceptance of lower headline growth in exchange for greater economic resilience. The central question is whether Beijing can institutionalize these priorities and maintain its commitment to them when short-term growth pressures mount.

To succeed, China should embed consumption metrics within local and national performance frameworks, and develop institutional safeguards that preserve pro-consumption policies through cyclical downturns. Redefining policy success around household prosperity, rather than aggregate GDP, would strengthen legitimacy and social stability. The most impactful reform—ending household financial repression through higher deposit rates and improved capital market access—remains essential to unlocking sustained consumption gains.

For the United States and global partners, strategic engagement should encourage China's domestic rebalancing while preparing for volatility if reforms stall. Coordinated contingency planning for potential export surges and diversified demand channels will be critical. The durability of China's consumption pivot will shape both its own internal equilibrium and global economic stability.

Endnotes

1 Chan Ka Sing, "China Consumer Is Epitome of Delayed Gratification," Reuters, November 4, 2024, https://www.reuters.com/breakingviews/china-consumer-is-epitome-delayed-gratification-2024-11-04/; Gerard DiPippo, "Changing Course in a Storm: China's Economy in the Trade War," China Leadership Monitor, September 1, 2025, https://www.prcleader.org/post/changing-course-in-a-storm-china-s-economy-in-the-trade-war.

2 Author's calculations based on data from the World Bank and Enodo analysis.

3 "Xi Chairs CPC Leadership Meeting to Analyze Economic Situation, Arrange for Economic Work," Xinhua News Agency, September 26, 2024, https://english.www.gov.cn/news/202409/26/content_WS66f4f810c6d0868f4e8eb4a2.html.

4 "Accelerate the Construction of a New Development Pattern," Party Leadership Group of the National Development and Reform Commission of the Communist Party of China, July 16, 2025, https://www.qstheory.cn/20250714/8dba75fd43e2443bbd64b3416919cefb/c.html.

5 Author's calculations.

6 Communiqué of the Fourth Plenary Session of the 20th Central Committee of the Communist Party of China, *Xinhua / Chang'an Street Knowledge*, October 23, 2025, https://mp.weixin.qq.com/s/2AibKceJkoDbru8Hd2GRXA.

7 Zongyuan Zoe Liu, "Why China Won't Give Up on a Failing Economic Model," *Foreign Affairs*, October 31, 2024, https://www.foreignaffairs.com/china/why-china-wont-give-failing-economic-model.

8 Daniel Garcia-Macia, Siddharth Kothari, and Yifan Tao, "Industrial Policy in China: Quantification and Impact on Misallocation" (Working Paper No. 2025/155, International Monetary Fund, August 8, 2025), https://www.imf.org/en/Publications/WP/Issues/2025/08/07/Industrial-Policy-in-China-Quantification-and-Impact-on-Misallocation-568888.

9 The 61% of GDP figure is from the National Bureau of Statistics, accessed via CEIC Data; the 70% figure reflects the author's estimate.

10 Chi Hung Kwan, "Strengthening National Security Has Become a Top Priority for the Xi Jinping Administration—Can It Be Compatible with Economic Development?," Research Institute of Economy, Trade and Industry, March 13, 2024, https://www.rieti.go.jp/en/china/24031301.html.

11 "Xi Delivers Important Speech at Central Economic Work Conference," Xinhua News Agency, December 17, 2024, https://english.www.gov.cn/news/202412/17/content_WS6760b3e6c6d0868f4e8ee061.html.

12 "Special Action Plan to Boost Consumption," Xinhua News Agency, March 15, 2025, https://interpret.csis.org/translations/special-action-plan-to-boost-consumption/.

13 *Xinhua / Chang'an Street Knowledge*, Communiqué of the Fourth Plenary Session.

14 Michael Pettis, "Why Is It So Hard for China to Boost Domestic Demand?," Carnegie Endowment for International Peace, July 31, 2024, https://carnegieendowment.org/posts/2024/07/why-is-it-so-hard-for-china-to-boost-domestic-demand?lang=en.

15 Author's calculations.

16 Author's calculations.

17 Luna Sun, "'Eating into Old Savings': Can China's 15th 5-Year Plan Be a Panacea for Spending Woes?," *South China Morning Post*, September 25, 2025, https://www.scmp.com/economy/china-economy/article/3326644/eating-old-savings-can-chinas-15th-5-year-plan-be-panacea-spending-woes.

18 Data from Federal Reserve Bank of St. Louis, accessed October 20, 2025, https://fred.stlouisfed.org/graph/?g=1MKHa.

19 Jiaxing Li and Ankur Banerjee, "Dividend Surge Signals Culture Shift in China's Markets," Reuters, January 26, 2025, https://www.reuters.com/markets/asia/dividend-surge-signals-culture-shift-chinas-markets-2025-01-24/.

20 "China Moves to Cap the Cost of Renting a Home in Cities," Reuters, September 1, 2021, https://www.reuters.com/world/china/china-moves-cap-cost-renting-home-cities-2021-09-01/.

21 "China Taps $1.5 Trillion Fund to Boost Home Market Support," Bloomberg, June 9, 2025, https://www.bloomberg.com/news/articles/2025-06-09/china-taps-1-5-trillion-fund-to-ramp-up-housing-market-support; "China Refines Financial Aid for Students," Xinhua News Agency, October 14, 2024, https://english.www.gov.cn/news/202410/14/content_WS670c7b17c6d0868f4e8ebd4c.html; Arendse Huld, "Understanding China's 2027 Rural Revitalization Plan," *China Briefing*, January 2025, https://www.china-briefing.com/news/rural-revitalization-in-china-2027-plan/.

22 Luna Sun, "China's Richest Cities Say Medical Costs Are Bleeding Dry Health Insurance Funds," *South China Morning Post*, February 12, 2025, https://www.scmp.com/economy/china-economy/article/3298401/chinas-richest-cities-say-medical-costs-are-bleeding-dry-health-insurance-funds; David Tingxuan Zhang, "Beijing Must Act to Ensure a University Degree Is Worth Its Costs," South China Morning Post, September 26, 2025, https://www.scmp.com/opinion/china-opinion/article/3326526/beijing-must-act-ensure-university-degree-worth-its-costs; "China Unveils Plan for Massive 'Silver Economy' to Serve Elderly," Bloomberg, January 15, 2024, https://www.bloomberg.com/news/articles/2024-01-16/china-unveils-plan-for-massive-silver-economy-to-serve-elderly?srnd=premium-asia; Zongyuan Zoe Liu, "What Is the Chinese Pension System and Why Are Its Problems Hard to Fix?," Council on Foreign Relations, January 13, 2025, https://www.cfr.org/blog/what-chinese-pension-system-and-why-are-its-problems-hard-fix.

Can the United States and China Find a New Equilibrium on Trade and Technology?

Brendan Kelly and Michael Hirson

Photo by STR/AFP via Getty Images

The Stakes: Implications for the Global Economy

U.S.-China trade and technology tensions are central to the global economic shifts now underway. Both advanced and emerging economies will be materially affected by U.S.-China policy choices and the trajectory of the two countries' relationship, facing risks from potential escalation as well as the effects of any unexpected improvement in bilateral ties.

Core Dilemma: Bilateral Stability Depends on Mutual Vulnerability

The October 30, 2025, summit in Busan, South Korea, between President Donald Trump and General Secretary Xi Jinping signaled a tenuous new equilibrium, rooted not in accommodation but in a shared recognition of each side's capacity to inflict significant economic harm on the other. Yet this recognition reinforces the impetus for both sides to accelerate "de-risking"—gradually undermining the very foundation of that equilibrium.

In April 2025, the United States and China briefly tested uncontrolled decoupling as tariffs and export controls escalated on both sides. The two governments then spent the summer negotiating a mutual de-escalation. U.S. Secretary of State Marco Rubio described the relationship then as entering a period of "strategic stability," as both parties recognized the costs of continued trade conflict.[1]

This stability was tested earlier than expected, however, by two major flare-ups. The first came in May 2025, when Washington warned companies around the world that using semiconductors produced by China's Huawei was a violation of U.S. export controls, and Beijing responded by tightening rare earth export licenses. The second flare-up occurred in September and October

2025, when Washington broadened its export controls and China retaliated with a significant expansion of its rare earth licensing regime. Following threats of further escalation by Washington, Trump and Xi agreed in South Korea to a partial "disarmament" of export controls and retaliatory tariffs. After the Busan summit, U.S. Treasury Secretary Scott Bessent described reaching an "equilibrium" that both sides would seek to maintain over the next twelve months.[2]

These flare-ups have sharpened the extent to which both sides are racing to eliminate the other's strategic chokepoints. China forced Trump to the negotiating table by withholding rare earths and rare earth magnets, shutting down key production lines in the United States and Europe.[3] Even as Trump was preparing to meet with Xi, Washington announced a flurry of new agreements with domestic industry and allied governments to reduce dependence on China's rare earth supply chain, with Bessent pledging an 18- to 24-month timeline.

A tenuous truce is likely to hold into 2026, but it offers no resolution to the underlying pressures.

Meanwhile, Beijing's 15th Five-Year Plan—previewed at the Fourth Plenum of the 20th Central Committee just before the Busan summit—doubles down on Xi's agenda of controlling key technologies and supply chains to make China more resilient against U.S. pressure. China's leadership is increasingly confident that it can break the United States' chokehold on advanced semiconductor technology over the next several years. The new Five-Year Plan also targets China's vulnerabilities in software and aerospace technologies.

The stakes are high. If either side reduces its key vulnerabilities ahead of the other, it will erode the very condition—mutually assured supply chain disruption—that is keeping the new equilibrium in place.

Outlook for 2026

A tenuous truce is likely to hold into 2026, but it is fragile, offering no resolution to the underlying pressures. Ahead of the fall 2026 midterm elections in the United States, Trump may be wary of inflation risks, tempering his appetite for additional tariffs on China and for more aggressive decoupling steps.

In China, Xi will begin to focus on the 2027 political transition at a time when the economy remains weak. As the effects of fiscal stimulus measures and front-loaded exports faded, China's economic momentum slowed in the second half of 2025.[4] Chinese business and household confidence remains weak, with the risk of renewed U.S.-China tensions a key factor holding back recovery.[5]

Two leader-level meetings expected in 2026 will help keep tensions in check, and may bring additional incremental economic agreements—but not a sweeping "grand bargain." Beijing will use Trump's desire for political wins to offer additional commitments to purchase U.S. exports (and perhaps invest in the United States), so long as they do not undermine Xi's agenda of self-reliance.

Indeed, with Trump's time in office limited—and Beijing uncertain about the United States' China policy once he leaves office—Beijing has little incentive to gamble on major concessions.

While Trump has floated the idea of selling advanced artificial intelligence (AI) chips to China—which would be a clear sign that technology decoupling is easing—a major agreement is unlikely. Trump has sidelined officials pushing for strict export controls, but he appears to have accepted the argument that the United States must be careful not to cede its lead in computing power. Beijing is also walking a fine line: Chinese tech firms still depend on certain advanced U.S. chips to keep up with AI developments, but Beijing is focused on replacing those with domestic alternatives.

Conditions and Contingencies

- Currently, **leader-to-leader engagement** is especially consequential, particularly in the increasingly personalized regimes of Xi and Trump. Two summits scheduled for 2026—a tentative Trump visit to China in the spring and a reciprocal Xi visit to the United States later in the year—should serve as important stabilizing influences.
- **The agreements reached** at the October 2025 summit—to extend the tariff truce for one year, and to temporarily suspend both the implementation of China's broader rare earths export controls and U.S. expansion of export control restrictions to affiliates of companies on the Entity List ("Affiliates Rule")—should support stability in the months ahead.[6]
- An additional prerequisite for sustaining the truce is **active communication at the senior cabinet level**. The Trump administration appears to have settled into two primary channels: Secretary of State and National Security Adviser Rubio engaging with Foreign Minister Wang Yi,[7] and Treasury Secretary Bessent coordinating with Vice Premier He Lifeng.[8] As examples across multiple U.S. administrations have demonstrated, such channels are essential for managing security and economic tensions that might otherwise escalate.

What to Watch

Signs that the U.S.-China truce is strengthening or breaking down would include the following:

- **Post-summit rhetoric.** A key factor to watch will be how both sides behave after the leaders meeting, particularly before the disciplining effects of a potential Trump visit to China in the spring come to bear.[9] Will the Trump administration maintain its positive rhetoric on China even when it conflicts with the realities of the relationship and actual policies?
- **Outcomes of the trade deal and trade balance.** China's follow-through on the Busan agreements—particularly regarding Chinese purchases of U.S. agricultural products or new Chinese investments in the United States—will draw intense scrutiny. Likewise, the trajectory of the U.S. trade deficit with China could also serve as a potential trigger, if this remains high or even grows.
- **Continuing technology controls.** Both sides will continue imposing technology controls to

protect against risks from the other, each testing how far they can go without upsetting the strategic stability described by Secretary Rubio—and without triggering retaliatory escalation.

- **Implementation of U.S. "economic security" clauses.** Provisions in many U.S. trade deals on economic security and trans-shipment with other key trading partners are largely viewed as targeting China.[10] As the United States begins implementing these agreements in 2026, bilateral tensions could increase.

Alternative Scenarios

- **Baseline (most likely): Managed decoupling.** The base case is a continued trade truce that maintains the process of managed decoupling, punctuated by periodic flare-ups. China's use of rare earths as leverage raises the costs for Washington to pursue aggressive measures, such as more stringent export controls.[11] These stakes may compel both sides to tread carefully in 2026, especially with Trump focused on the U.S. midterm elections. The risk of escalation or broader deterioration in the relationship, however, remains significant.

- **Alternative 1: Re-escalation.** A military incident in the South China Sea or the Taiwan Strait—particularly given limited U.S.-China communication channels and weakened national security coordination within the Trump administration—would carry heightened risks of escalation.[12] Moreover, the relative lack of internal coordination in Washington means that Trump may have limited ability or willingness to rein in hawkish measures, even if the hawks are currently sidelined.

  Should the current truce break down, Washington may seek other forms of leverage—or "weaponized interdependence"—to counter Beijing's use of rare earths.[13] Under this scenario, nontariff measures could again follow the escalatory pattern seen in June 2025. Financial decoupling measures could also return to the agenda, carrying risks and destabilizing effects comparable to those posed by trade and technology decoupling.

  Another potential flashpoint is technology competition, particularly in AI and semiconductors. A major Chinese breakthrough that threatens U.S. dominance—a more profound version of China's "DeepSeek moment"—could be viewed in Washington as both a geopolitical risk and a near-term economic threat, given the central role of AI investments in U.S. growth and equity markets. Such a development could increase pressure on the Trump administration to tighten export controls (e.g., on semiconductor manufacturing tools) to blunt China's advances, even as the Busan agreement puts the Commerce Department's "Affiliates Rule" on hold. Restrictions on biopharmaceutical cooperation between the two countries could also move to the fore in 2026.[14]

  Finally, many key Trump appointees and Republican members of Congress remain hawkish on China, and they may be eager to move quickly to renew restrictions if the political winds change.[15]

- **Alternative 2 (least likely): Negotiated stabilization.** A less likely pathway is an ambitious U.S.-China agreement in which Washington further lowers tariffs on China and potentially eases certain export controls to boost U.S. exports, thereby reducing incentives for supply chain diversification and broader decoupling efforts.

Amid continued uncertainty over U.S. tariff policy, and with ASEAN tariff rates at 19% to 20%, some U.S. firms are reportedly reconsidering or pausing further diversification out of China.[16] The 10% reduction in fentanyl tariffs on Chinese goods has already brought the 2025 U.S. tariffs on China broadly in line with those applied to ASEAN.[17] Given China's unparalleled cost, manufacturing, and logistics advantages—further boosted by a weakened currency—and concerns that the United States could quickly raise tariffs on other trade partners (as seen with India), companies may choose to stay in China or even deepen their commitments.[18]

Similarly, if the United States is seen as weakening semiconductor export controls to support higher sales to China—for example, on high-bandwidth memory—it would become harder to convince key partners to maintain their own restrictions on key semiconductor equipment and inputs tied to high-bandwidth memory.[19] The "economic security" provisions of U.S. trade deals, such as those with the European Union (EU) aimed at jointly diversifying away from China, would be similarly undermined, limiting the United States' ability to achieve its own economic security goals.

Strategic Implications

If the forecast of a tenuous truce marked by largely positive rhetoric holds, it could enable limited, transactional cooperation on select global security issues, such as in Ukraine or the Middle East.[20] Expectations, however, should remain modest. Some limited cooperation in basic science may also continue, provided it steers clear of critical and emerging technologies.[21]

Domestically, any U.S.-China trade deal is unlikely to change China's policy trajectory. The 15th Five-Year Plan is set to entrench China's self-sufficiency and de-risking efforts.[22] The United States' willingness to abruptly cut off critical inputs, as it did for ethane and airplane parts in May and June 2025, is likely to accelerate China's efforts to reduce any dependence on the United States.[23]

Meanwhile, Chinese exporters have steadily redirected their exports to Europe and emerging markets.[24] As China's economic imbalances deepen—its trade surplus is set to far exceed last year's record $1 trillion amid surging exports and falling imports—they are increasingly spilling over to the EU, ASEAN, India, and others.[25] A core question for the global economy is how quickly and forcefully these economies will push back, and how much damage may occur in the meantime.

Policy Shaping and Conclusion

2026 will be an important year for U.S.-China de-risking, serving as a test of whether it can take a less volatile path. Both sides have incentives to buy time to address their vulnerabilities, even though such de-risking measures will, almost by definition, have a negative impact on the export and investment opportunities for firms in both countries. In the context of long-term de-risking, the transactional nature of the Trump administration offers limited openings for both governments, as well as for firms and allies, to shape more collaborative outcomes.

The current trade truce could create incremental opportunities for U.S. firms in China and Chinese firms in the United States. The Trump administration appears more willing than the Joe Biden administration to negotiate for increased U.S. commercial access to China, providing a chance for U.S. industry to engage the administration and push for expanded export opportunities. While Chinese overseas investment remains controversial in the United States—not helped by reports that Chinese authorities seek to discourage any tech transfer—a key area to watch in 2026, particularly during the two potential leaders meetings, is signals of support for such investment by both governments.[26]

China's supply chain weaponization and stark exposure of U.S. vulnerabilities have, ironically, encouraged greater bilateral and multilateral cooperation by the Trump administration with allies, as these vulnerabilities cannot be addressed alone. China's dramatic new rare earth controls (even if now on pause) significantly threatened European and Asian supply chains as well, and appear to have reinvigorated the G7 critical minerals alliance for advanced economies to collectively de-risk their reliance on China in this space. The success of this effort—counterbalanced by China's efforts to de-risk its own reliance on Western semiconductor technology—will be central to the U.S.-China trade and technology equilibrium going forward.

Endnotes

1 U.S. Department of State, "Secretary of State Marco Rubio Remarks to the Traveling Press," July 11, 2025, https://www.state.gov/releases/office-of-the-spokesperson/2025/07/secretary-of-state-marco-rubio-remarks-to-the-traveling-press.

2 Demetri Sevastopulo, "China 'Made a Real Mistake' by 'Firing Shots' on Rare Earths, Says Scott Bessent," *Financial Times*, October 31, 2025, https://www.ft.com/content/399ad440-ecd3-4fb0-b97d-a0d8e0a8a22c?accessToken=zwAGQy0P7SzYkc85mtRA7NNPsNO5faDY4KiiLA.MEYCIQC2aIsvAMJ-BkhLaatlGiD_JjSPQMmhCK3FJEVVhgf8rQIhAN62OyHiI1DCL6r453FGcDhC_qoT017J_2LYydD6MOd5&sharetype=gift&token=0976584b-d01f-4ee2-8f4a-eff38e89cee2.

3 Keith Bradsher, "China Halts Critical Exports as Trade War Intensifies," *The New York Times*, April 13, 2025, https://www.nytimes.com/2025/04/13/business/china-rare-earths-exports.html.

4 Carol Yang, "China Rate Cuts Likely in Fourth Quarter amid Growth Concerns: Goldman Sachs," *South China Morning Post*, September 29, 2025, https://www.scmp.com/economy/china-economy/article/3327189/china-rate-cuts-likely-fourth-quarter-amid-growth-concerns-goldman-sachs.

5 Alexander Brown and Andreas Mischer, "Solid GDP Growth in Q2 Masks China's Challenges," Mercator Institute for China Studies, July 23, 2025, https://merics.org/de/tracker/solid-gdp-growth-q2-masks-chinas-challenges.

6 "Fact Sheet: President Donald J. Trump Strikes Deal on Economic and Trade Relations with China," The White House, November 1, 2025, https://www.whitehouse.gov/fact-sheets/2025/11/fact-sheet-president-donald-j-trump-strikes-deal-on-economic-and-trade-relations-with-china/; "Expansion of End-User Controls to Cover Affiliates of Certain Listed Entities," *Federal Register*, September 30, 2025, https://www.federalregister.gov/documents/2025/09/30/2025-19001/expansion-of-end-user-controls-to-cover-affiliates-of-certain-listed-entities.

7 "Rubio Spoke Wednesday with China's Wang Yi, State Department Says," Reuters, September 10, 2025, https://www.reuters.com/world/china/rubio-spoke-wednesday-with-chinas-wang-yi-state-department-says-2025-09-10/.

8 David Lawder, "Bessent, Chinese Vice Premier to Meet in Madrid Next Week on Trade, TikTok," Reuters, September 11, 2025, https://www.reuters.com/world/china/bessent-chinese-vice-premier-meet-madrid-next-week-trade-tiktok-2025-09-11/.

9 Skylar Woodhouse, "Trump Vows to Confront China over Refusal to Buy US Soybeans," Bloomberg, October 1, 2025, https://www.bloomberg.com/news/articles/2025-10-01/trump-to-press-xi-on-china-soybean-buys-as-us-farmers-hurt.

10 "Joint Statement on a United States–European Union Framework on an Agreement on Reciprocal, Fair and Balanced Trade," European Commission, August 21, 2025, https://policy.trade.ec.europa.eu/news/joint-statement-united-states-european-union-framework-agreement-reciprocal-fair-and-balanced-trade-2025-08-21_en.

11 Arendse Huld, "Rare Earth Elements: Understanding China's Dominance in Global Supply Chains," China Briefing, August 29, 2025, https://www.china-briefing.com/news/chinas-rare-earth-elements-dominance-in-global-supply-chains/.

12 Luna Sun, "China, US Set to Revive Military Channels but More Steps Needed to Build Trust: Expert," *South China Morning Post*, November 2, 2025, https://www.scmp.com/news/china/diplomacy/article/3331226/china-us-set-revive-military-channels-more-steps-needed-build-trust-expert-says.

13 Henry Farrell and Abraham L. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion," *International Security* 44, no. 1 (Summer 2019): 42–79, https://doi.org/10.1162/isec_a_00351.

14 Rob Copeland and Rebecca Robbins, "U.S. Drugmakers Warn White House of Chaos as Trump Weighs Curbs on China," *The New York Times*, September 10, 2025, https://www.nytimes.com/2025/09/10/business/trump-medicines-china-biotech.html.

15 Helen Sullivan, "US Election Updates: Trump Reportedly Looks to China Hawks for Key Security and Foreign Policy Roles," *The Guardian*, November 11, 2024, https://www.theguardian.com/us-news/2024/nov/12/us-election-updates-2024-trump-cabinet-picks-appointments-so-far-2025.

16 "Further Modifying the Reciprocal Tariff Rates," The White House, July 31, 2025, https://www.whitehouse.gov/presidential-actions/2025/07/further-modifying-the-reciprocal-tariff-rates/; Daniel Desrochers, Phelim Kine, and Megan Messerly, "Trump's Attempts to Lure Companies Away from China Are Backfiring," Politico, August 31, 2025, https://www.politico.com/news/2025/08/31/were-trapped-trumps-tariffs-lock-us-businesses-in-china-00535666.

17 When Section 301 duties are included, the overall U.S. tariff burden on Chinese imports remains substantially higher, though these duties have been in place since 2018–2019 and so do not provide an incremental incentive to diversify supply chains away from China.

18 Agatha Kratz, Lauren Piper, and Juliana Bouchaud, "China and the Future of Global Supply Chains," Rhodium Group, February 4, 2025, https://rhg.com/research/china-and-the-future-of-global-supply-chains/; Brad W. Setser, "The Case That China Is Now Actively Resisting Pressure on the Yuan to Appreciate," Council on Foreign Relations, July 16, 2025, https://www.cfr.org/blog/case-china-now-actively-resisting-pressure-yuan-appreciate; David Lawder and Manoj Kumar, "Trump's Doubling of Tariffs Hits India, Damaging Ties," Reuters, August 27, 2025, https://www.reuters.com/world/india/trumps-doubling-tariffs-hits-india-damaging-ties-2025-08-27/.

19 "US-China AI Chip Tensions Escalate amid Restrictions and Suspicions," AInvest, August 11, 2025, https://www.ainvest.com/news/china-ai-chip-tensions-escalate-restrictions-suspicions-2508/.

20 Pavel K. Baev, Robin Brooks, Jonathan A. Czin, Patricia M. Kim, Michael E. O'Hanlon, and Constanze Stelzenmüller, "Should China Have a Role in Ending the War in Ukraine?," Brookings Institution, March 6, 2025, https://www.brookings.edu/articles/rivals-and-responders-the-us-china-and-global-crisis-management/; Mathew Jie Sheng Yeo, "China-US Cooperation Could Halt the Next Middle East War," The Diplomat, June 21, 2025, https://thediplomat.com/2025/06/china-us-cooperation-could-halt-the-next-middle-east-war/.

21 Brendan Kelly and Jing Qian, "Science Could Be a Bright Spot in U.S.-China Relations," *Foreign Policy*, January 16, 2025, https://foreignpolicy.com/2025/01/16/united-states-china-science-diplomacy-data-sharing-agreement-research/.

22 Matthew Johnson, "Xi Establishes 'Strategic Endurance' Priorities for the PRC's Next Five-Year Plan," China Brief Notes, May 20, 2025, https://jamestown.org/program/xi-establishes-strategic-endurance-priorities-for-the-prcs-next-five-year-plan/.

23 Philip Luck, "U.S.-China Trade Talks in London: Ethane Export Controls and the Need for Better Economic Statecraft," Center for Strategic and International Studies, June 9, 2025, https://www.csis.org/analysis/us-china-trade-talks-london-ethane-export-controls-and-need-better-economic-statecraft; Ana Swanson, "U.S. Pauses Exports of Airplane and Semiconductor Technology to China," *The New York Times*, May 28, 2025, https://www.nytimes.com/2025/05/28/business/economy/jet-engine-chip-software-exports-to-china.html.

24 Brad W. Setser, "China Is Also Fighting a Trade War with Europe (and Winning)," Council on Foreign Relations, July 28, 2025, https://www.cfr.org/blog/china-also-fighting-trade-war-europe-and-winning; "China Floods the World with Cheap Exports After Trump's Tariffs," Bloomberg, September 22, 2025, https://www.bloomberg.com/news/features/2025-09-22/china-floods-world-with-record-amount-of-cheap-goods-after-trump-s-tariffs.

25 "China Exports to US Slump 33% but Trade Surplus Heads for Record," Bloomberg, September 7, 2025, https://www.bloomberg.com/news/articles/2025-09-08/chinese-export-growth-slows-more-than-forecast-as-demand-weakens; Paula Soler, "EU Business Leader Cautions on Rapid Growth of Chinese Exports to Europe," Euro News, September 24, 2025, https://www.euronews.com/my-europe/2025/09/24/eu-business-leader-cautions-on-rapid-growth-of-chinese-exports-to-europe; "South-East Asia Is Being Swamped with Chinese Goods," *The Economist*, October 2, 2025, https://www.economist.com/asia/2025/10/02/south-east-asia-is-being-swamped-with-chinese-goods; "India Continues to Buy More from China as Cheap Exports Pour In," *The Economic Times*, September 23, 2025, https://economictimes.indiatimes.com/news/economy/foreign-trade/india-continues-to-buy-more-from-china-as-cheap-exports-pour-in/articleshow/124065178.cms?from=mdr; Sylvia Ma, "China's Exports, Investments to Global South Surge in 'Age of Tariffs': Report," *South China Morning Post*, August 19, 2025, https://www.scmp.com/economy/china-economy/article/3322225/chinas-exports-investments-global-south-surge-age-tariffs-report.

26 Meia Nouwens, Maria Shagina, and Erik Green, "China's Use of Export Controls," International Institute for Strategic Studies, February 27, 2025, https://www.iiss.org/online-analysis/charting-china/2025/02/chinas-use-of-export-controls/.

How Does Beijing Read U.S. Power—and How Will It Shape China's Foreign Policy Posture?

Sungmin Cho and Philippe Le Corre


Photo by Sergey Bobylev/Pool/AFP via Getty Images

The Stakes: Navigating a Multipolar World

Since Xi Jinping's 2018 declaration that "the world is undergoing profound changes unseen in a century,"[1] the notion that "the East is rising and the West is declining" (东升西降) has become embedded in Chinese strategic discourse.[2] This framing reflects a long-term vision of the relative rise of China and the gradual erosion of U.S. dominance, reinforcing a narrative in Beijing that China will eventually outpace the United States in comprehensive power.[3] This perception of the shifting power balance is one of the key elements to understanding China's evolving foreign policy behavior and the possibility that it may adopt an increasingly assertive approach to regional and global affairs.

Yet a parallel interpretation suggests that Xi may simply be leveraging this rhetoric to bolster the domestic legitimacy of the Chinese Communist Party (CCP), rather than projecting genuine strategic confidence. It remains uncertain whether Xi privately views a permanent decline of U.S. power as real or whether he is merely wielding the concept as a rhetorical instrument. The authors therefore proceed from the assumption that the "East rising/West declining" narrative likely holds persuasive power in some policymaking circles in Beijing. Its practical impact on China's foreign policy, however, may prove uneven and contingent.

This question of Beijing's perception is particularly salient in 2026, as the second Trump administration may redirect greater resources toward China, especially if it is freed from the constraints of the Russia-Ukraine war. Should Beijing remain convinced that China is rising while the United States is declining, it will likely respond aggressively to renewed U.S. and allied efforts to curb its global influence, intensifying its political outreach and economic diplomacy, especially in the Global South. Yet an emboldened China will still struggle to convince U.S. allies that it offers a peaceful alternative to U.S. leadership.

Core Dilemma: What Do Chinese Leaders Believe?

China's leaders face significant dissonance between the rhetoric of national ascent and the reality of the country's economic slowdown. China's economy faces structural problems such as real estate fragility, demographic decline, and weak consumption, contradicting the triumphalist message of China rising. Although Beijing continues to achieve progress in select technological domains, these achievements coexist with mounting fiscal and economic pressures.

According to a report by the Asia Society's Center for China Analysis, Xi Jinping personally prioritizes domestic issues such as regional development and political governance over expansive foreign policy.[4] Economic stagnation directly contradicts Beijing's propaganda that China is rising while the United States is declining. Xi may view U.S. decline as a long-term trend, but he also recognizes American resilience. Despite shifts in relative gross domestic product (GDP) shares, for example, the United States has consistently maintained around 26% of global GDP, challenging the notion of inevitable decline.[5]

Xi may view U.S. decline as a long-term trend, but he also recognizes American resilience.

Externally, Beijing's perception of U.S. decline has not generated goodwill abroad but rather concern.[6] Even as Beijing presses its interests more bluntly, with a style often described as "wolf warrior" diplomacy, many view China's rise with suspicion.[7] While Beijing promotes the "China model" to developing countries as superior to liberal democracy, especially through the Belt and Road Initiative (BRI), its assertiveness has damaged China's international image—particularly in the West. Global surveys such as those conducted by Pew Research Center show declining favorability toward China.[8] Even in developing countries, BRI participants complain that Chinese projects disproportionately benefit Chinese firms and fail to deliver adequate benefits to local communities.[9]

The core dilemma lies in the fact that Beijing's self-image as a rising power rests on a shaky economic foundation, and has generated backlash. The leadership's confidence in China's historical trajectory—whether uniformly shared or unevenly held—coexists with growing insecurity at home and vulnerabilities abroad.

Outlook for 2026

By 2026, we predict that China will likely consolidate its regional influence in the Indo-Pacific without triggering direct conflict. Persistent frictions between the Trump administration and its allies will reinforce Beijing's conviction that the United States is in decline, emboldening China's quiet advancement of its strategic interests. Gray-zone tactics—such as harassment of Philippine vessels, drone flights near Taiwan, and intensified naval patrols in the South China Sea—will continue, raising the risk of miscalculation. However, Beijing will also attempt to control the escalation to avoid direct conflicts and, by doing so, prevent an excuse for U.S. intervention.

Economically, Beijing will intensify efforts to strengthen China's domestic supply-chain resilience in order to reduce its exposure to U.S. sanctions. U.S. restrictions in advanced technologies such as semiconductors have already spurred China's pursuit of indigenous innovation and self-reliance.[10]

At the Trump-Xi summit that took place on October 30, 2025, in Busan, South Korea, China agreed to suspend export control measures it had placed on rare earths, crucial for the production of everything from smartphones to fighter jets. Some may see this one-year deal as a key win for Trump, but China still has the upper hand when it comes to these critical minerals. China has also agreed to buy 12 million metric tons of soybeans, although long-term implementation remains uncertain. In exchange, Beijing secured what it wanted most: the removal of certain U.S. tariffs linked to fentanyl-related products. However, other tariffs, or taxes on imported goods, will remain in place.

By 2026, we predict that China will likely consolidate its regional influence in the Indo-Pacific without triggering direct conflict.

On the security front, Washington appears intent on deterring China's aggression by pressing Indo-Pacific allies—namely, South Korea, Japan, and Australia—to play a greater role in counterbalancing Beijing. Washington's proposal to reorient the U.S. Forces Korea to focus more explicitly on deterring China illustrates this trend.[11] However, if allies align more closely with Washington to counter Beijing, China's parallel efforts at engagement will falter, and Beijing's response may grow more confrontational.

Nevertheless, all told, the second Trump administration's foreign policy creates both risks and opportunities for Beijing. Chinese analysts expect increasing frictions between Washington and its traditional allies over defense spending, trade deficits, and broader burden-sharing disputes.[12] America's polarized politics—amplified by Trump's leadership style—would reinforce Xi Jinping's vision of "the East rising and the West declining."[13] These perceived signs of U.S. decline are likely to intensify Beijing's efforts to present itself as a reliable partner to its Asian neighbors and to European countries.

Conditions and Contingencies

If the Russia-Ukraine war ends or pauses, Beijing will expect the United States to redirect its attention and resources to the Indo-Pacific.[14] Increased military activity—such as more frequent U.S. naval transits through the Taiwan Strait and freedom of navigation operations in the Asia-Pacific—will likely follow. From a power transition theory perspective, Chinese leaders may interpret such actions as preventive measures characteristic of a declining power seeking to contain a rising challenger. Beijing would thus conclude that China must resist such U.S. attempts to contain its rise, beginning with rejecting U.S. interference over what Beijing considers its "internal affairs"—Taiwan.

A Russia-Ukraine ceasefire might also allow some NATO members to allocate more naval and air assets toward China. British, German, and French navies could, for example, sail more often through the Taiwan Strait and conduct more joint exercises with Asia-Pacific partners such as Japan or Australia.[15] Under U.S. pressure, South Korea may also signal its willingness to support Washington in a Taiwan contingency. Such developments would confirm for Beijing that the West seeks to contain China, deepening its hostility toward the United States and heightening the risk of conflict in East Asia.

What to Watch

The year 2026 will be significant, with the U.S. midterm elections in November and the CCP's 21st National Congress just a year off. It will also coincide with political milestones in People's Liberation Army (PLA) naval and air force consolidation: The Xi leadership has been alluding to 2027 as the year when China's forces should be ready to "compel Taiwan with military force."[16]

If Beijing's perception of U.S. decline truly shapes its policy in the Indo-Pacific, early indicators should emerge across rhetoric, military posture, and hybrid tools.

- **Rhetorical signals.** Heightened emphasis in official speeches and media on multipolarity and the inevitability of U.S. decline would suggest Beijing's growing confidence. Already, there are claims that China has overtaken the United States in production, technological innovation, and military scope,[17] reinforcing Xi's long-standing narrative that Western isolation tactics cannot halt China's rise and that the global order is shifting irreversibly toward China-led alternatives. Such narratives condition both domestic and international audiences to accept U.S. decline as fact, legitimizing more assertive Chinese actions.

Analysts often assume that China will pursue a coherent, long-term strategy to displace U.S. power, but a major surprise could be the absence of such a fixed agenda.

- **Military signals.** We should expect to see expanded PLA activity in contested zones—the South China Sea, the Senkaku/Diaoyu islands, and areas around Taiwan—framed as legitimate acts of sovereignty. To test U.S. resolve, China may take provocative actions, such as flying military aircraft closer to Taiwan or quarantining small islands, such as Matsu, that are administered by Taipei.[18] Increased investment in overseas military logistics and dual-use infrastructure, particularly along the BRI, would also indicate Beijing's intent to convert economic presence into security leverage. Joint military exercises with Russia across the Indo-Pacific region will likely continue.[19]
- **Hybrid signals.** Beijing's increased reliance on Chinese private security contractors abroad would reflect the gradual militarization of the BRI—China's shift from economic diplomacy toward security expansion that integrates security, energy logistics, and strategic basing. While China has already been implementing such measures, the perceived weakening of U.S. global influence on Trump's watch will accelerate such efforts.[20]

Taken together, such signals would show China moving from rhetorical confidence in U.S. decline toward operational steps to implement its ambitions in the Indo-Pacific.[21]

Alternative Scenarios

- **Baseline (most likely): Quiet advancement.** By 2026, China steadily consolidates influence across the Indo-Pacific without triggering direct conflict. The Trump administration's frictions with U.S. allies and partner countries reinforce China's belief in the decline of U.S. influence, encouraging Beijing's quiet advancement of its interests.[22] This would include the use of yuan-denominated transactions and, in general, the expansion of Beijing's global ambitions and deepening of its economic and selective security ties with ASEAN states. Simultaneously, gray-zone tactics, including harassment of Philippine vessels, drone flights near Taiwan, and increasing naval patrols in the South China Sea, intensify. Risk of miscalculation grows, but Beijing prefers controlled escalation.
- **Alternative 1: Aggressive escalation.** Amid deepening Sino-Russian military cooperation, Chinese leaders conclude that the United States is too internally divided and overstretched to respond effectively. As a result of a potential domestic crisis or growing U.S. isolationism—such as withdrawal from Ukraine—American credibility weakens further, and Xi authorizes sustained military pressure around Taiwan. This could include blockade-style deployment, missile tests over Taiwan, or aggressive interception of U.S. and Japanese aircrafts. Despite the risks of confrontation, Beijing calculates that acting now will cement China's dominance before the United States recovers. Regional instability surges as Japan and Australia accelerate rearmament, while Washington feels forced to demonstrate resolve militarily.
- **Alternative 2 (least likely): Strategic retrenchment.** China reassesses its assumptions and concludes that the United States is not in decline. Coupled with China's domestic fragility—high youth unemployment, an aging population, a stagnant property sector, and continuing PLA purges—Beijing could unexpectedly turn inward and return to a policy of *taoguang yanghui* (韬光养晦, "hide one's strength and bide one's time"). In this scenario, Xi would prioritize domestic stability, tone down military assertiveness, and shift propaganda toward national resilience while quietly scaling back foreign initiatives. Beijing does not relinquish its long-term ambitions but prioritizes stability and seeks a period of consolidation.

Even under such retrenchment, one caveat remains: Analysts often assume that China will pursue a coherent, long-term strategy to displace U.S. power, but a major surprise could be the absence of such a fixed agenda. Beijing often acts opportunistically as well as strategically. A key analytical risk, therefore, lies in overestimating China's coherence and readiness to lead. A fragmented, reactive China—powerful but inconsistent—could prove more destabilizing than a disciplined challenger.

Strategic Implications

If Xi genuinely perceives that U.S. decline is accelerating, he is likely to double down on authoritarian controls to insulate the CCP from slowing growth, demographic aging, and high youth unemployment. Economic policy will shift even further toward self-reliance in semiconductors, rare earth minerals, and energy, framed as both protection against Western "containment" and proof that China can surpass U.S. technological leadership despite controls. Nationalist messaging will intensify to emphasize "Western decline" and to justify sacrifices and sustain public commitment to long-term competition.

U.S.-China relations will harden around zero-sum competition across trade, technology, and security.[23] The risk lies in mutual miscalculation: If Beijing overestimates U.S. weakness, or Washington overreacts to perceived Chinese aggression, flashpoints around Taiwan or the South China Sea could tip into confrontation.

Multilaterally, Beijing will seek to expand its agenda-setting influence in institutions such as the United Nations, BRICS, and the Shanghai Cooperation Organization, while simultaneously promoting new frameworks, such as China's Global Security Initiative, to establish a post-U.S., China-led international order. However, countries in the region, such as ASEAN states, will continue hedging, seeking security assurances from the United States while leveraging Chinese economic inducements. Globally, markets will face heightened volatility as both powers weaponize interdependence in supply chains, technology standards, and financial flows.

Policy Shaping and Conclusion

China's narrative of U.S. decline may serve as both a domestic legitimizing narrative and a strategic framework for China's foreign policy behavior. Yet this narrative coexists uneasily with China's own internal weaknesses and structural vulnerabilities, and the possibility that Chinese elites' true assessment of U.S. power remains more cautious than rhetoric suggests. Beneath the triumphalist rhetoric, Beijing's leadership may remain deeply aware of its own economic troubles and demographic pressures, and the risks of overextension.

In this fluid landscape, institutions such as the European Union, ASEAN, the African Union, APEC, and the G20 can act as stabilizers by fostering dialogue and maintaining rules-based cooperation. This underscores the importance of regional and middle powers preserving their strategic autonomy, diversifying partnerships, and avoiding overdependence on any single major power. For the United States, the task lies in adapting to a more multipolar world—rebuilding alliances, renewing multilateral engagement, and demonstrating consistency in its global commitments. Sustained cooperation with a broad range of partners will be essential to uphold stability and credibility amid intensifying U.S.-China competition and broader systemic uncertainty.

Endnotes

1 "Statement by Xi Jinping at General Debate of 75th UNGA," *China Daily*, September 22, 2020, https://www.chinadaily.com.cn/a/202009/23/WS5f6a640ba31024ad0ba7b1e7.html.

2 "Comprehensive national power" (综合国力) is a central framework through which the Chinese Communist Party measures its progress toward key strategic objectives. It also guides Beijing's approach to, and understanding of, competition with the

West. For further discussion, see Erik R. Quam, "PRC Conceptions of Comprehensive National Power: Part 1," *China Brief* 25 (6): 18–29, https://jamestown.org/program/prc-conceptions-of-comprehensive-national-power-part-1/.

3 Jude Blanchette and Seth G. Jones, "Beijing's New Narrative of U.S. Decline," Center for Strategic and International Studies, July 2021, https://opensource.csis.org/features/beijing-narrative-us-decline/; Sungmin Cho, "The U.S.-China Power Transition: An Assessment of China's Internal View," *Melbourne Asia Review*, March 18, 2022, https://doi.org/10.37839/MAR2652-550X9.13.

4 Neil Thomas and Lobsang Tsering, "Xi's Personal Priorities: What Matters Most to China's Leader?," Asia Society Policy Institute, July 30, 2025, https://asiasociety.org/policy-institute/xis-personal-priorities-what-matters-most-chinas-leader.

5 "USA: Percent of World GDP," The Global Economy, accessed October 22, 2025, https://www.theglobaleconomy.com/usa/gdp_share/.

6 Graham Allison, *Destined for War: Can America and China Escape Thucydides's Trap?* (Houghton Mifflin Harcourt, 2017).

7 Peter Martin, "Understanding Chinese 'Wolf Warrior Diplomacy,'" National Bureau of Asian Research, October 22, 2021, https://www.nbr.org/publication/understanding-chinese-wolf-warrior-diplomacy/.

8 Laura Silver, Laura Clancy, Jonathan Schulman, William Miner, and Christine Huang, "Views of China and Xi Jinping," Pew Research Center, July 15, 2025, https://www.pewresearch.org/2025/07/15/views-of-china-and-xi-jinping-2025/.

9 Nadia Clark, "The Rise and Fall of the BRI," Council on Foreign Relations, April 6, 2023, https://www.cfr.org/blog/rise-and-fall-bri.

10 Alex Rubin, "China Plans to Dominate a Key Semiconductor Material," Information Technology and Innovation Foundation, September 8, 2025, https://itif.org/publications/2025/09/08/china-plans-to-dominate-a-key-semiconductor-material/.

11 Yunjin Kim, "USFK Commander Urges Broader Mission to Deter China," *Dong-a Ilbo*, May 17, 2025, https://www.donga.com/en/article/all/20250517/5608213/1.

12 Yun Sun, "China's Trump Strategy: Beijing Is Preparing to Take Advantage of Disruption," *Foreign Affairs*, February 6, 2025, https://www.foreignaffairs.com/china/chinas-trump-strategy.

13 Gabriele Manca, "How Trump Is Bolstering China's World View," The Diplomat, March 20, 2025, https://thediplomat.com/2025/03/how-trump-is-bolstering-chinas-world-view/.

14 Finbarr Bermingham, "China tells EU It Does Not Want to See Russia Lose Its War in Ukraine: Sources," *South China Morning Post*, 4 July, 2025, https://www.scmp.com/news/china/diplomacy/article/3316875/china-tells-eu-it-cannot-afford-russian-loss-ukraine-war-sources-say

15 David Rising, "Germany Sails Two Warships Through Taiwan Strait for the First Time in Two Decades," Associated Press, September 13, 2024, https://apnews.com/article/germany-china-taiwan-strait-warship-0bc53be4d6dc363c5ef21eedfc721206; "French Naval Vessel Passes Through Sensitive Taiwan Strait," Reuters, October 29, 2024, https://www.reuters.com/world/french-naval-vessel-passes-through-sensitive-taiwan-strait-2024-10-29/.

16 John Culver, "China, Taiwan, and the PLA's 2027 Milestones," The Interpreter, February 12, 2025, https://www.lowyinstitute.org/the-interpreter/china-taiwan-pla-s-2027-milestones.

17 Kurt M. Campbell and Rush Doshi, "Underestimating China," *Foreign Affairs*, April 10, 2025, https://www.foreignaffairs.com/china/underestimating-china.

18 David Lague and Maryanne Murray, "T-DAY: The Battle for Taiwan," Reuters, November 5, 2021, https://www.reuters.com/investigates/special-report/taiwan-china-wargames/.

19 Ondrej Ditrych and Alice Ekman, "Rehearsing for War: China and Russia's Military Exercises," EU Institute for Security Studies, July 3, 2024, https://www.iss.europa.eu/publications/briefs/rehearsing-war-china-and-russias-military-exercises.

20 Xiangning Wu and You Ji, "The Military Drivers of China's Belt and Road Endeavor: Expanding the Global Reach from Land Mess to the Maritime Domains," *China Review* 20, no. 4 (2020): 223–244, https://www.jstor.org/stable/26959859; Swati Batchu, "Chinese Private Security Companies Along the BRI: An Emerging Threat?," Modern Diplomacy, September 25, 2020, https://moderndiplomacy.eu/2020/09/25/chinese-private-security-companies-along-the-bri-an-emerging-threat/.

21 It is equally possible that Beijing would pursue the aforementioned actions in isolation from assessments of U.S. decline. Not all Chinese actions are undertaken with the United States in mind, especially regional issues with direct national security implications for Beijing, such as the Sino-Indian border or relations with North Korea. See Shuxian Luo, "China's North Korea Problem: How America Can Encourage Beijing to Rein in Pyongyang," *Foreign Affairs*, August 21, 2025, https://www.foreignaffairs.com/china/chinas-north-korea-problem.

22 Yun Sun, "China Is Enjoying Trump 2.0," *Foreign Affairs*, August 15, 2025, https://www.foreignaffairs.com/china/china-enjoying-trump-20.

23 Michael Swaine, "Chinese Views of U.S. Decline," *China Leadership Monitor*, no. 69 (Fall 2021), https://www.prcleader.org/post/chinese-views-of-u-s-decline.

Will Beijing Recalibrate Its Approach to Taiwan?

Lyle Morris

Photo by I-Hwa Cheng/Bloomberg via Getty Images.

The Stakes: Three Parties in a Delicate Balance

The year 2026 will be pivotal for Taiwan. With new leaders elected in Washington and Taipei in 2024, prospects for peace in the Taiwan Strait will likely hinge on the ever-changing political considerations of how to maintain the precarious "status quo" between China, Taiwan, and the United States. In 2026, U.S. President Donald Trump and Taiwanese President Lai Ching-te will each have to confront the challenge of maintaining the peace while balancing domestic considerations that may distract from this central goal. Meanwhile, as China's President Xi Jinping continues to pursue "peaceful reunification" between mainland China and Taiwan, there are indications that China's population may be losing patience with nonmilitary approaches to achieving Xi's goal.[1]

In short, all three parties are locked in a delicate balance of deterrence, dissuasion, and inducements to achieve peace across the Strait—factors that may increase or decrease the likelihood of armed conflict depending on how they evolve in the year ahead.

Core Dilemma: What are the Implications of a Shifting Status Quo?

In 2025, key differences remained in understandings of the notion that there is only "one China" and what it means to maintain the "status quo" across the Taiwan Strait. Acute U.S.-China competition, Taiwan's democratization and thirst for greater autonomy, and a stronger, more assertive China are laying bare the delicate balance that has existed since 1979. In particular, all three sides appear to view their respective commitments to refrain from crossing the other's "red line" as weakening.[2]

In other words, the status quo, and how to define it, has changed. The expanding military exercises of the People's Liberation Army (PLA) around Taiwan since August 2022 have been shifting toward more coercive and multidomain operations to assert peacetime control over Taiwan. These systematic and incremental military and civilian-military measures provide China with the tools it needs to change the very nature of the status quo across the Strait. The line between peacetime military coercion and a forceful reunification with Taiwan is increasingly becoming blurred.[3]

Thus, a strategic tension remains: how China can achieve its stated goal of "peaceful reunification" without resorting to force, despite trends in Taiwan that are increasingly pointing toward a separate, independent state, undermining Xi's narrative that Taiwan will "inevitably reunify" with mainland China. This question is the starting point for assessing what to expect in 2026 given current trends.

Plausible Pathways

There are four plausible scenarios for how cross-Strait relations could unfold in 2026 that merit attention.

1. **Status quo, with caveats.** Scenario 1 sees the current state of relations remaining stable, with several important caveats. In this scenario, Taiwan retains its quasi-independent status and marginal participation in international organizations but does not undertake any major policy shifts toward formal independence; Beijing maintains its current approach to "peaceful reunification" and refrains from any forceful military measures to annex Taiwan; and Washington maintains its "One China" policy of unofficial relations with Taiwan, with continued visits by scholars, businesspeople, and members of the U.S. Congress, and continued support for Taiwan's defense needs with U.S. arms sales.

   However, two caveats to the definition of the status quo are necessary: First, Beijing continues its peacetime military exercises and gray-zone activities near Taiwan, which both Washington and Taipei view as incrementally eroding the tenuous balance of peace; and second, Lai Ching-te continues his increasingly overt public rhetoric on Taiwan's independent sovereign status, which Beijing views as provocative and challenging China's narrative of the "inevitability" of Taiwan's return to mainland China.

2. **Forceful unification.** Scenario 2 sees Beijing take the risky and provocative move of attempting to invade Taiwan militarily and "reunify" Taiwan with mainland China. This would likely be precipitated by either an external stimulus forcing Xi to launch an invasion, such as a formal declaration of independence by Taiwan, or an assessment by Xi that all possibilities of "peaceful reunification" have been exhausted completely.[4]

3. **Formal declaration of Taiwanese independence.** Scenario 3 sees Taiwan formally declare independence, through either a referendum vote or a public statement from President Lai. This would entail Lai taking the extraordinarily risky gamble of legally enshrining Taiwan as a independent sovereign state in the international community. Lai would only undertake such a move if he believed doing so would serve Taiwan's interests, or if he felt compelled to do so for domestic political reasons.

4. **Fundamental change in Taiwan policy from Washington.** Scenario 4 sees Washington change its One China policy to include formally recognizing Taiwan as an independent

state and undertaking official exchanges with Taiwan. While formal diplomatic recognition by Washington would be an extreme scenario, there are other, less extreme measures that President Trump could take that would still signify a major change to U.S. policy that would be considered destabilizing from Beijing's perspective. This could include an official visit by Trump to Taiwan or by Lai to the United States, for example, or something more tactical, such as the formal deployment of U.S. troops in Taiwan or new security guarantees for Taiwan in the event of an invasion by China.

Outlook for 2026

Based on the current state of affairs, the four scenarios, and the possible early indicators of change outlined here, the following predictions can be made for 2026.

Most Likely Scenario: Continuation of Status Quo, with Caveats

The most likely scenario in 2026 sees all three sides continue their current policies on maintaining the status quo across the Taiwan Strait. "Maintenance" here is defined as not undertaking any fundamental policy change, including the People's Republic of China (PRC) not launching a military campaign to invade Taiwan, Lai not formally declaring independence, and Trump not changing course on the One China policy. The logic underlying this prediction is that any change in the status quo would have significant implications for regional stability, inviting potentially catastrophic risks to leaders in all three countries. Xi understands that a military campaign by China to "reunify" Taiwan would completely change the geostrategic landscape in East Asia and beyond. If unsuccessful, it would have profound negative consequences for the region, U.S.-China relations, and Xi's own survival as leader of the Chinese Communist Party (CCP). Similarly, Lai and Trump likely understand that any fundamental change to the status quo might imperil their own reputations and domestic political standings, especially if such change led to a military conflict.

With new leaders elected in Washington and Taipei, prospects for peace in the Taiwan Strait will likely hinge on the ever-changing political considerations of how to maintain the precarious "status quo."

Extreme Scenarios That Are Unlikely but Cannot Be Ruled Out

The other three scenarios—forceful unification by Beijing, formal declaration of independence by Taiwan, or a fundamental change in U.S. policy toward Taiwan—are all deemed unlikely in 2026 because of the significant risks associated with each scenario. Whether Xi has become "impatient" with Taiwan does not change the fundamental cost-benefit calculus that he and China face. It would be a major political gamble for Xi to launch an invasion, because of the chance that the United States, and possibly other regional actors like Japan or Australia, would intervene. Similarly, Lai likely sees little benefit or necessity in formally declaring independence, simply because Taiwan knows that such a move would almost certainly result in the PRC initiating military action against Taiwan. Finally, Trump is unlikely to see strategic benefit in formally recognizing Taiwan as a sovereign state or using Taiwan as a bargaining chip in negotiations with China, because of the destabilizing effects it would have on U.S.-China relations.

What to Watch

There are several watchpoints or early indicators we might observe in 2026 that would suggest change is on the horizon, or that might compel Beijing to take destabilizing actions across the Taiwan Strait.

- **Xi signals impatience with Taiwan.** We may see signals in 2026 that would indicate Xi's growing frustration or impatience with Lai. This would include rhetorical shifts in public speeches by Xi or senior CCP officials, such as the removal of the term "peaceful" from China's "peaceful reunification" formula for Taiwan; a new white paper or policy document that emphasizes a closing window for peaceful resolution of the Taiwan question; or more pronounced destabilizing military exercises or maneuvers near Taiwan that would push Taiwan or the United States to respond.[5] These factors will take on added significance as Xi approaches the 21st National Congress in 2027, a symbolic date corresponding with the 100th anniversary of the founding of the PLA.[6] Chinese scholars are already debating whether Lai has crossed Beijing's red line, such as by passing certain thresholds of China's Anti-Secession Law.[7]
- **Trump's Taiwan wildcard.** A second early warning is the possibility that Trump will change U.S. policy on Taiwan, shifting Xi's calculus of the risks and rewards of taking military action against Taiwan. Trump's mercurial negotiating style and apparent fondness for authoritarian leaders has led to speculation that he may treat Taiwan as a bargaining chip on the international stage.[8] In particular, observers worry about Trump using Taiwan as a political pawn in ongoing U.S.-China trade negotiations, possibly even "giving away" Taiwan in order to strike some sort of grand bargain with Xi.[9]

  While there is little concrete evidence to suggest that Trump is poised to fundamentally change U.S. policy on Taiwan, the following developments would indicate a possible shift on the horizon in 2026:

  1. Continued cancellation of high-level visits by Taiwanese leaders.
  2. Decrease or cancellation of U.S. arms sales to Taiwan.
  3. A rhetorical opening to Xi from Trump. For example, were Trump to publicly signal that Taiwan was a potential bargaining chip during high-level meetings with Xi, this could open the door for Xi to surmise that Trump would not come to Taiwan's aid were China to invade Taipei. This scenario sees Trump alluding to Taiwan as "being a part of China's territory," or comparing Xi's designs over Taiwan to Russian President Vladimir Putin's designs over Ukraine.

Strategic Implications

Several strategic implications flow from the forecast of a continuing status quo, with caveats.

First, under Xi's leadership, the PLA can execute a range of missions against Taiwan, including a full air and naval blockade, with increasing confidence of success.[10] Thus, even if our central prediction holds—no change to the current, ever-evolving status quo—China is now capable of exerting PRC control and influence over Taiwan without "firing a shot" through political subversion, threats of a military "ultimatum," or an economic blockade of Taiwan short of military invasion. As the means of PRC political manipulation of Taiwanese domestic politics continue to grow, along with the instruments of military power to impose an economic blockade, Washington and Taipei will have to contend with these new peacetime coercive tools.[11]

Whether Xi has become "impatient" with Taiwan does not change the fundamental cost-benefit calculus that he and China face.

Additionally, Trump's second term in office has injected a new variable into the equation of cross-Strait peace. His propensity for transactional, personality-driven approaches to foreign policy introduces a degree of unpredictability into U.S. relations with Taiwan.[12] While most observers believe he will maintain continuity in the United States' One China policy over Taiwan, others have raised doubts about his willingness to come to the aid of Taiwan in the event of an armed conflict initiated by Beijing in the Taiwan Strait.[13] Although it is unlikely that Trump will fundamentally change U.S. policy on Taiwan, Xi will be watching closely for signs that the American president is willing to sacrifice Taiwan in the service of broader U.S.-China stabilization.

Policy Shaping and Conclusion

2026 will be a pivotal year in determining whether deterrence holds across the Taiwan Strait. The primary actors with the power to influence the trajectory of peace and stability in the Strait reside in the governments of all three capitals, but there are several actions that governments, institutions, and companies can take to positively reinforce the current status quo. First, governments on all three sides can signal the importance of maintaining the status quo, including highlighting the acute risks for regional peace and stability that would come with upsetting it.[14] Second, institutions and think tanks can pursue people-to-people exchanges between the three countries to support bonds among the populations and societies, and they can highlight academic and public-policy research on the history of cross-Strait relations and the benefit of maintaining the present trajectory of the status quo. Finally, private businesses can promote the benefits of trade and investment among the three sides and highlight the business and supply-chain risks of conflict across the Strait.

Endnotes

1 Kelly Tang, "China's Combative Nationalists Urge War to Reintegrate Taiwan After Presidential Election," Voice of America, January 17, 2024, https://www.voanews.com/a/china-s-nationalists-urge-war-to-reintegrate-taiwan-after-presidential-election/7444075.html.

2 Beijing believes that Washington has increasingly hollowed out its "One China" policy and is now openly supporting Taiwan's permanent separation from the mainland. Taipei views Beijing as increasingly aggressive and impatient with Taiwan's elected leaders, as evidenced by China's refusal to foreswear the use of force to resolve the Taiwan question, and by its conduct of larger, more destabilizing military exercises around the island. For its part, Washington sees Beijing increasingly turning to

coercion and threats against Taiwan and the United States to force a resolution of the Taiwan question on Beijing's terms. See Micah McCartney, "China Warns Taiwan of Crossing 'Red Line,'" *Newsweek*, March 12, 2025, https://www.newsweek.com/china-warns-taiwan-crossing-red-line-2043635.

3 Ming-shih Shen, "China's 'New New Normal' Military Exercises Against Taiwan and Their Implications," *Prospects & Perspectives*, no. 1 (January 2, 2025), https://www.pf.org.tw/en/pfen/13-11117.html.

4 This is one criterion within Article 8 of China's Anti-Secession Law, for example. See Deng Yuwen, "Miscalculating Xi Jinping: A Dangerous Gamble for Taiwan?," Think China, April 17, 2025, https://www.thinkchina.sg/politics/miscalculating-xi-jinping-dangerous-gamble-taiwan.

5 Another factor is how Xi's new wave of purges could affect the PLA's readiness. The purges are likely to slow some weapons modernization programs, disrupt command structures and decision-making, and weaken morale—all of which would degrade the PLA's ability to fight in the near to medium term. The purges raise two fundamental questions: Will Beijing now be forced to exercise greater caution before pursuing large-scale military operations, such as an amphibious assault on Taiwan? Or will Xi get impatient with Lai and with PLA readiness concerns that would prompt him to launch an invasion as a "test" of PLA capabilities? For more on Xi's use of the formula of "peaceful reunification," see Lyle Morris, "Listen to Xi Jinping About Taiwan," War on the Rocks, November 18, 2022, https://warontherocks.com/2022/11/listen-to-xi-jingping-about-taiwan/. For more on Xi's purges of the PLA, see M. Taylor Fravel, "Is China's Military Ready for War?," *Foreign Affairs*, July 18, 2025, https://www.foreignaffairs.com/china/chinas-military-ready-war-xi-jinping-taylor-fravel; Eliot Chen, "All the President's Generals," The Wire China, May 11, 2025, https://www.thewirechina.com/2025/05/11/all-the-presidents-generals-anti-corruption-pla-china/.

6 According to then-Central Intelligence Agency Director Bill Burns in 2023, Xi has instructed the PLA to be "ready" to invade Taiwan by 2027. U.S. officials emphasize that being "ready" does not mean a decision to invade has been made, only that China should possess the capability by that year. See Alex Willemyns, "CIA Director: China Readying for Taiwan Invasion by 2027," Radio Free Asia, February 3, 2023, https://www.rfa.org/english/news/china/cia-taiwan-invasion-02032023160341.html.

7 Deng Yuwen makes the case that Taiwan under Lai has already met certain clauses within China's "Anti-Secession Law" that would give Beijing a legal basis for taking military action to "reunify" Taiwan. See Yuwen, "Miscalculating Xi Jinping."

8 Michael A. Cohen, "Trump's Bromance with Putin Grows More Dangerous by the Day," MSNBC, October 10, 2024, https://www.msnbc.com/opinion/msnbc-opinion/trump-putin-bob-woodward-book-war-rcna174891.

9 Brendan Flynn, "Why Trump Won't Sacrifice Taiwan," Foreign Policy Research Institute, May 27, 2025, https://www.fpri.org/article/2025/05/why-trump-wont-sacrifice-taiwan/.

10 Phillip C. Saunders, Arthur S. Ding, Andrew Scobell, Andrew N. D. Yang, and Joel Wuthnow, *Chairman Xi Remakes the PLA: Assessing Chinese Military Reforms* (Washington, D.C.: National Defense University Press, 2019).

11 Some have described such PRC peacetime coercive tools against Taiwan as an "anaconda strategy." See Michael Froman, "How China Intensified Its Tactics Against Taiwan," Council on Foreign Relations, July 25, 2025, https://www.cfr.org/article/how-china-intensified-its-tactics-against-taiwan. For more on the various kinetic and nonkinetic means that China might use to impose a blockade on Taiwan, see Bonny Lin, Brian Hart, Matthew P. Funaiole, Samantha Lu, and Truly Tinsley, "How China Could Blockade Taiwan," Center for International and Strategic Studies, August 22, 2024, https://features.csis.org/chinapower/china-blockade-taiwan/.

12 Ravi Agrawal, "Trump is Ushering in a More Transactional World," *Foreign Policy*, January 7, 2025, https://foreignpolicy.com/2025/01/07/trump-transactional-global-system-us-allies-markets-tariffs/.

13 Brian Hioe, "Taiwan Is Afraid of Being Thrown Under the Bus by Trump," Nikkei Asia, March 24, 2025, https://asia.nikkei.com/opinion/taiwan-is-afraid-of-being-thrown-under-the-bus-by-trump.

14 This could include Taiwan and the United States engaging like-minded democracies on contingency planning if Taiwan were to be attacked, including signaling the destabilizing effect of such a scenario on the thousands of expatriates living in Taiwan from the Philippines, Japan, South Korea, and other countries.

Can Beijing Contain Public Frustration over High Inequality, Youth Unemployment, and Economic Strain?

Barclay Bram

Photo by Kevin Frayer via Getty Images

The Stakes: A Deeply Unequal Society

By 2025, public frustration over inequality and privilege in China had intensified, with a number of scandals exposing systemic flaws. Despite Xi Jinping's decade-long anti-corruption campaign, these cases underscored to the public how China remains a deeply unequal society in which privilege determines outcomes.

According to the 2024 Hurun Global Rich List, China had more dollar billionaires (814) than the United States (800).[1] At the same time, more than 200 million Chinese people are working precarious jobs in the gig economy, and youth unemployment continues to hover near 20%.[2] China saw a number of scandals in 2025 that highlighted the country's inequality—a young actress flaunting earrings supposedly bought with money that her father had embezzled from the state, a doctor in a Beijing hospital advancing the career of his mistress at the expense of his patients, and a Harvard valedictorian who was skewered online for her privileged educational background, to name a few.[3]

While such public exposés of elite largesse and corruption are nothing new, these cases hit hard at a time of grinding economic uncertainty, amid continued property market woes, high youth unemployment, disruptions caused by artificial intelligence (AI), and the ongoing effects of President Donald Trump's trade war. The extensive security apparatus of the Chinese Communist Party (CCP) has largely prevented unrest, but growing frustration could create longer-term governance challenges for the Party-state.

Core Dilemma: An Economy Leaving Millions Behind

The CCP claims to uphold socialist ideals, but China remains highly unequal. Inequality peaked by many measures in 2008 (with a Gini coefficient of 0.491), exceeding the threshold historically associated with social instability (0.4), but it has come back down since.[4] But growth, too, has slowed in the last five years. Beijing faces a dilemma: Can China sustain economic growth without widening inequality?

People's perceptions of the causes of inequality are shifting. Before 2014, in representative national surveys, most respondents attributed inequality to individual failings in an ascendant China. By 2023, however, the majority saw inequality as a structural issue related to unequal opportunity, corruption, and a stagnant economy. In the face of a sluggish economy, many people are less willing to accept a system they see as unfair.

Mass unrest driven by inequality remains unlikely in 2026. The CCP's dominance over narrative, its coercive capacity, and its elite control give it resilience against systemic shocks.

China provides scant social welfare, which will come under increasing strain as demographic issues impose pressure. That tension was exemplified by the policy issued by the central government on September 1, 2025, requiring all businesses to contribute to worker benefits—a measure intended to boost employee welfare.[5] The policy instead sparked angst that small businesses would either fail under spiraling costs or lay off workers, pushing more people into unemployment or gig jobs.[6]

Beijing faces a bind: It must restore economic dynamism to ease popular frustrations while avoiding reforms that are structurally and politically difficult.

Outlook for 2026

Mass unrest driven by inequality remains unlikely in 2026. The CCP's dominance over narrative, its coercive capacity, and its elite control give it resilience against systemic shocks. The Chinese population lives in fear of repercussions from the country's deeply integrated, digitized security apparatus, which prevents mass mobilization. Moreover, there is little evidence of elite fracture at the top that could be exacerbated by grassroots instability. Socialist systems rarely crack from the grassroots—they break due to elite fragmentation.

Social and economic competition is only reinforcing the system: Party membership has never been higher—by some estimates, it is now over 100 million, more than 7% of the overall population.[7] Competition to join the state bureaucracy is also fierce as "civil service exam fever" (考公热) reaches a fever pitch, with 3.41 million people passing the initial screening to sit the exams in 2025.[8] Competition for graduate schools is also intense, with 4.38 million people taking the exams last year despite there being a total of 1.3 million people admitted by graduate schools overall in 2023.[9] Young people are leaning into the system not out of faith in it but out of fear that the alternative—being left outside the system—is worse.

In the near term, Beijing will most likely be able to manage any instability caused by inequality. But the longer-term picture is more uncertain: If the economy fails to deliver upward mobility, disillusionment will deepen and governance challenges will accumulate, setting up a tougher political environment in the future.

Conditions and Contingencies

A number of conditions support the stability of China's system:

- **Economic management.** The government should be able to manage the slow deterioration of the property market while deploying tools such as subsidies and bailouts to prevent a meltdown. Social mobility is stagnant and youth unemployment is high, officially registering somewhere between 15% and 20%, but China's economy is still growing, despite the external shocks of the trade war with the United States.[10] As long as China's economy remains relatively stable in 2026, Beijing should be able to contain public resentment about inequality.
- **Elite cohesion.** Despite tensions between fiscally strained local governments and the national government in Beijing, the CCP apparatus appears overall to be tightly controlled and galvanized by competition with the United States. There is no reason to believe that we will see elite fracture in 2026.
- **Security dominance.** The CCP uses broad surveillance and predictive policing to suppress coordinated dissent before it grows.
- **Risk-averse youth.** Rising anxiety is pushing young people to work harder within the system rather than trying to take it down. Paradoxically, precarity, though it makes young people anxious and unhappy, creates a conservative condition reinforcing CCP stability rather than undermining it. This is why we are seeing the uptick in Party membership, the desire for civil service jobs, and the college entrance exam craze.

What to Watch

The following factors can help us assess whether Beijing's inequality management is working:

- **Housing market meltdown.** At its height, the property market accounted for 30% of the Chinese economy, and for a majority of Chinese citizens, property represents their biggest asset and investment.[11] A sharp drop in the housing market could break public trust and worsen financial fragility.
- **Youth unemployment surge.** Youth unemployment rising significantly above 20% could portend greater instability. The frustration could extend from jobless youth to their parents, who have made significant investments in their children's education, only to see limited returns. This disappointment has given rise to the term "rotten tail children" 烂尾娃—a riff on "rotten tail buildings" 烂尾楼 (unfinished properties left vacant after developers default).[12]
- **Fiscal stress.** Many provinces, cities, and township-level governments are in serious fiscal

stress, putting pressure on Beijing to ease their debt burden so they can continue to provide services and maintain social stability. Further deterioration in the fiscal condition of localities would be an early warning signal of broader systemic stress.

- **Personal debt defaults.** Following the COVID-19 pandemic, total savings increased 50% from 2021 to 2024.[13] Those who cannot save have been taking out loans, which are increasingly easy to secure given digital credit services. Nearly 80 million Chinese people—especially the young—are now at risk of default.[14] A significant number of people defaulting on their debt would have serious social and economic ramifications that would ripple throughout the system.
- **Failure of small and medium-sized enterprises (SMEs).** The number of SMEs that lay workers off or shutter after the September 1 benefits expansion would be one indicator of Beijing's likelihood of continuing or expanding the policy, indicating how easily the government can expand the social safety net.
- **Political messaging.** We should look for any renewed attempt to push the idea of "common prosperity" and the exact form it takes. President Xi Jinping has stated that he is wary of "welfarism," so we should not expect any redistributive program of expanded social security.[15] The exact form that this will take is unclear and worth watching.
- **Curbs on involution.** We should also keep a close eye on government attempts to curb "involuted" competition and overcapacity, as seen by recent commentaries against the automotive industry.[16] Here the government is in another bind, as addressing overcapacity could result in mass layoffs in many industries. We should pay close attention to whether the Chinese government makes actual policy and legislative interventions to curb involution, rather than hoping that companies will course correct on their own.

Alternative Scenarios

- **Baseline (most likely): Muddling through.** The economy neither fails nor recovers. Global instability continues to weigh on growth, unemployment persists, and the housing market continues to sputter without full-scale collapse. Against these headwinds, China's investments in green infrastructure and high technologies such as AI and automation soften the blow from other areas of stagnation. Popular sentiment is bitter, but the people bear it.
- **Alternative 1: Recovery.** The property market rebounds after some deft policy tweaks, the country makes significant AI breakthroughs, and the world economy settles into Trump 2.0. After some positive economic indicators, investment starts cranking up, turning popular sentiment hopeful again. Anger at inequality wanes as people hope they will catch the rising tide.
- **Alternative 2 (least likely): Shock.** A black swan event comparable to the 2008 Wenchuan earthquake triggers a true political backlash.[17] The earthquake became symbolic of government corruption after widespread reports that many collapsed buildings had not been built to code. If a similar event happened now, after a decade of anti-corruption campaigns and amid economic

pessimism, popular anger might be much harder to control. While unlikely to pose an existential threat to Beijing, it would be very painful for the local officials implicated.

To temper these predictions, it is important to note that any forecasts of the Chinese economy at present are uncertain. First, there is significant unpredictability due to geopolitical instability. The Trump administration's seesawing over tariffs and the risks created by conflicts around the world (and the potential for some of them to end in 2026) make forecasting complex. Moreover, it is hard to trust economic data coming out of China—see, for example, the change in methodology that tracked youth unemployment figures downward in 2023—so it is important to be careful with predictions as there is considerable uncertainty in this area.[18]

Strategic Implications

Rising resentment and anger, as well as depressed confidence, will likely dampen personal investment and consumption. Affluent households will continue to try to take assets out of China, increasing the risk of capital flight. Meanwhile, middle-class households will likely prioritize saving as a hedge against the future. This will put deflationary pressure on the economy. More precarious households, and particularly the young, will likely take on more debt, putting them at further risk of default and serious economic consequences.

The government will attempt to reframe the narrative to deflect attention away from systemic failings and toward bad actors, whether corrupt individuals or the United States—for example, by arguing that President Trump's trade war and geopolitical instability are the real cause of China's woes, rather than long-term structural problems. However, a structural risk is that the central government often shifts the blame to local governments during political crises to preserve its image as a benevolent and effective ruler. In the event of social unrest, this dynamic could intensify tensions between the central and local governments as the center manages these crises while seeking to contain them.

The repressive apparatus of the state is sufficiently armed and well-oiled that it is highly unlikely that inequality will be an existential issue for the state in 2026. It will, however, continue to undermine the founding principles of the CCP and further erode people's belief in the system. They will continue to wistfully look to the past, back to a time when the economy was growing—"the beauty of economic boomtimes" (经济上行的美)—versus today, when they believe they are in the "garbage time of history" (历史垃圾时间).

Policy Shaping and Conclusion

Beijing faces difficult trade-offs: sustaining growth, containing instability, and delivering on "common prosperity." China needs serious welfare reforms and fiscal support to stem property-market woes while supporting youth employment. Whether Xi Jinping has the willingness or political capacity to enact such sweeping reforms remains to be seen. In the meantime, for external actors, direct influence is limited, but monitoring property, unemployment, and debt signals will be critical for decision-making with respect to interactions with China.

Endnotes

1 “Hurun Global Rich List 2024,” Hurun Research Institute, March 26, 2023, https://www.hurun.net/en-us/info/detail?num=K851WM942LBU.

2 “China’s 200m Gig Workers Are a Warning for the World,” *The Economist*, September 18, 2025, https://www.economist.com/leaders/2025/09/18/chinas-200m-gig-workers-are-a-warning-for-the-world; Barclay Bram, “The 19 Percent Revisited: How Youth Unemployment Has Changed Chinese Society,” Asia Society Policy Institute, September 5, 2025, https://asiasociety.org/policy-institute/19-percent-revisited-how-youth-unemployment-has-changed-chinese-society.

3 Wang Songsong, “Mystery of Actress’s Ear Ring Resolved,” China Daily, July 16, 2025, https://global.chinadaily.com.cn/a/202507/16/WS6877c813a310ad07b5d904ff.html; He Huifeng, “China’s Top Medical Bosses Taken to Task After Doctor Abandons Surgery to Defend Mistress,” *South China Morning Post*, August 16, 2025, https://www.scmp.com/news/china/politics/article/3322089/chinas-top-medical-bosses-taken-task-after-doctor-abandons-surgery-defend-mistress; Vivian Wang, “Squeezed by China’s Slowdown, Internet Users Lash Out at Elites,” *The New York Times*, June 5, 2025, https://www.nytimes.com/2025/06/05/world/asia/china-harvard-economy-inequality.html.

4 Kevin Yao and Aileen Wang, “China Lets Gini Out of the Bottle; Wide Wealth Gap,” Reuters, January 18, 2013, https://www.reuters.com/article/business/china-lets-gini-out-of-the-bottle-wide-wealth-gap-idUSBRE90H06O; “Gini Index—China,” World Bank Group, accessed October 15, 2025, https://data.worldbank.org/indicator/SI.POV.GINI?locations=CN.

5 Vivian Wang, “China Is Trying to Expand Its Social Safety Net. Yet Many Chinese Are Worried,” *The New York Times*, August 29, 2025, https://www.nytimes.com/2025/08/29/world/asia/china-social-security.html.

6 Cheng Leng, “China Rules Business Must Help Pick Up Pension Bill as Population Ages,” *Financial Times*, August 31, 2025, https://www.ft.com/content/401fc2de-2e3e-479d-a939-233dd9bf37fd.

7 “CPC Grows Stronger as Membership Exceeds 100M,” State Council of the People’s Republic of China, June 30, 2025, http://english.scio.gov.cn/pressroom/2025-06/30/content_117954482.html; “China’s Population Falls for a Third Consecutive Year,” Reuters, January 17, 2025, https://www.reuters.com/world/china/chinas-population-falls-third-consecutive-year-2025-01-17/.

8 “Can You Pass the Toughest Tests in the World?,” *The Economist*, June 13, 2025, https://www.economist.com/interactive/asia/2025/06/13/can-you-pass-the-toughest-tests-in-the-world.

9 Alice Li, “An Advanced Degree in China? Think Again, Students Say, as Exam Numbers Plunge,” *South China Morning Post*, November 21, 2024, https://www.scmp.com/economy/china-economy/article/3287592/advanced-degree-china-think-again-students-say-exam-numbers-plunge.

10 Bram, “The 19 Percent Revisited.”

11 Daisuke Wakabayashi and Joy Dong, “5 Years On, China’s Property Crisis Has No End in Sight,” *The New York Times*, August 25, 2025, https://www.nytimes.com/2025/08/25/business/china-property-downturn.html.

12 “After the Middle Class Lost Its Competitiveness, the First Batch of ‘Unfinished Children’ Appeared,” Sanlian Living Laboratory, December 12, 2024, https://m.huxiu.com/article/3782499.html.

13 Li Yuan, “China Is a Nation of Savers. Many Are Drowning in Debt,” *The New York Times*, August 6, 2025, https://www.nytimes.com/2025/08/06/business/china-consumer-debt.html.

14 Yuan, “China Is a Nation of Savers.”

15 Xi Jinping, “Full Text: Xi Jinping’s Speech on Boosting Common Prosperity,” Caixin Global, October 19, 2021. https://www.caixinglobal.com/2021-10-19/full-text-xi-jinpings-speech-on-boosting-common-prosperity-101788302.html.

16 Michael Pettis, “What’s New About Involution?,” Carnegie Endowment for International Peace, August 26, 2025, https://carnegieendowment.org/posts/2025/08/whats-new-about-involution?lang=en.

17 Alan Taylor, “10 Years Since the Devastating 2008 Sichuan Earthquake,” *The Atlantic*, May 9, 2018, https://www.theatlantic.com/photo/2018/05/10-years-since-the-devastating-2008-sichuan-earthquake/560066/.

18 Nicole Goldin, “Youth Unemployment in China: New Metric, Same Mess,” Atlantic Council, February 16, 2024, https://www.atlanticcouncil.org/blogs/econographics/youth-unemployment-in-china-new-metric-same-mess/.

Can Beijing Preserve Growth and Stability amid Rapid Demographic Change?

Emma Zang


Photo by Peter Parks/AFP via Getty Images

The Stakes: Escaping the Demographic Trap

China is undergoing one of the most rapid demographic transitions ever documented among large-population economies, marked by accelerating population aging and persistently low fertility. The working-age population peaked in 2014,[1] while the share of older adults is rising sharply: The old-age dependency ratio (i.e., the number of adults aged 65 and older per 100 working-age adults aged 15–64), which was already above 20% in 2023, is projected to reach 21.7% by 2026, exceed 25% by 2029, and continue climbing through the 2030s.[2] This dual dynamic is feeding a vicious cycle: Heavier eldercare burdens depress fertility, while fewer births accelerate population aging and decline. Population aging drives many of today's most pressing challenges: slower economic growth, fiscal stress, increasing needs for long-term care and eldercare, youth disaffection, and fertility decline.

As the labor force shrinks, pressures on pensions, healthcare, and long-term care are mounting, especially for debt-strained local governments. Families, particularly women, bear heavier care burdens, further discouraging marriage and childbearing. This reinforces the cycle and tightens the demographic trap. To compensate, Beijing is attempting to simultaneously raise productivity through artificial intelligence (AI) and automation, expand welfare to preserve stability, and encourage fertility to rebuild the population base. Yet these strategies frequently work at cross-purposes under tight fiscal and demographic constraints, potentially worsening unemployment and other structural challenges.

By 2026, China's old-age dependency ratio will already be climbing steeply, signaling the onset of a decades-long transition into "super-aging" that in other societies has coincided with sharp fiscal and social pressures.[3] In the coming years, choices about pensions, youth employment, and family policy will be critical for Beijing's ability to realign its growth model and social contract, making the near term especially consequential.

Core Dilemma: Beijing's Triangular Challenge

China's demographic challenges are reshaping its political economy. The working-age population is shrinking, the share over age 65 is rising rapidly, and the fiscal and social consequences of this shift are becoming unavoidable. Aging directly undermines growth by eroding labor supply, burdens welfare systems through rising pension and healthcare costs, and indirectly suppresses fertility by increasing household care demands, especially on women.

Beijing's response revolves around a triangular challenge:

1. **Productivity push**—AI, automation, and industrial upgrading to offset the shrinking workforce.
2. **Welfare expansion**—Strengthening pensions, healthcare, and eldercare to preserve stability in an aging society.
3. **Pronatalism**—Encouraging births through subsidies, housing incentives, and moral appeals to rebuild the population base.

Any two of these can be advanced together, but sustaining all three simultaneously is extremely difficult under tight fiscal and demographic constraints. The tension is structural: Productivity requires dynamism and risk-taking, yet rising care burdens and job insecurity suppress both. Stability requires redistribution, but local governments lack fiscal strength, as they have been hollowed by debt and collapsing land revenues. Fertility requires long-term family support, yet gendered care burdens, unaffordable housing, China's slowing growth, and generalized pessimism continue to discourage marriage and childbearing.

In short, Beijing can aim to sustain growth, preserve welfare stability, or rebuild fertility. But under current constraints, it cannot achieve all three.

The result is a system that is trying to reengineer its growth model, social contract, and demographic structure at once, while fiscal resources are shrinking and political stakes are rising. AI and automation could, in principle, ease this tension by delivering productivity gains that create fiscal space for stability and family support, but this remains uncertain. Aging thus acts as the fulcrum: The more urgent it becomes, the more these three objectives compete for limited resources and policy attention.

In short, Beijing can aim to sustain growth, preserve welfare stability, or rebuild fertility. But under current constraints, it cannot achieve all three.

Outlook for 2026

By 2026, China will likely enter a "demographic constraint" phase, when the triangular dilemma becomes unavoidable. Growth is expected to slow to 3.5%–4.0%, fertility will remain near 1.0–1.2, and youth unemployment will persist around 15%–19%.[4] These outcomes reflect the same root driver: rapid population aging. The old-age dependency ratio will approach 21.7% by 2026, raising pension and healthcare costs sharply while shrinking the workforce.

Beijing's most plausible response will be to push on all three sides of the triangle simultaneously:

1. **Productivity.** Beijing will double down on AI, automation, and advanced manufacturing as labor-substitution tools. These measures can sustain output as the workforce shrinks, yet they also deepen the mismatch between labor supply and demand: While low- and mid-skilled jobs go unfilled, educated young people face scarcity in the white-collar roles they seek. By displacing many of the entry-level positions that once absorbed new graduates, automation risks worsening youth joblessness even amid overall labor shortages.
2. **Welfare.** Gradual retirement-age reform, likely the most immediate step, will extend working lives and ease pension burdens for formal workers in urban areas, while broader measures such as national pension pooling are also under discussion.[5] Yet these shifts will offer little relief for rural and informal workers, who lack robust pensions and often hold physically demanding jobs. Without a parallel expansion of childcare and eldercare, women's work-care burdens will rise, further depressing fertility.
3. **Pronatalism.** Cash transfers, housing subsidies, and patriotic appeals will expand, but structural barriers, such as insecure jobs, gendered care expectations, and housing that remains costly and uncertain despite the real estate slump, will keep fertility flat.

The most immediate constraint will come from fiscal stress. With land-sale revenues down sharply and heavy debt burdens in many provinces, local governments will struggle to fund pension, elder-care, and family programs. The balance of these pressures varies by region, but together they leave little fiscal space; central support may cushion shortfalls, but not enough to erase them.

The forecast is one of modest growth, strained welfare delivery, and ineffective pronatalism—an uneasy balance that buys stability at the cost of long-term dynamism.

Conditions and Contingencies

For the baseline forecast to hold, several enabling conditions must remain in place through 2026:

- **Growth** would need to stabilize in the 3.5%–4.0% range.
- The Chinese Communist Party must retain the ability to **reallocate fiscal and administrative resources** from the center to debt-strained localities. Without this, service delivery failures, particularly in pensions and healthcare, could erode public trust.
- **Investment** in automation, AI, and workforce upskilling is essential to offset the drag of a shrinking labor force.
- **Fertility** must hover near 1.0–1.2 despite pronatalist incentives.

- **Youth unemployment** would need to remain elevated but without sustained protest or mobilization.
- **Youth disaffection** must remain manageable, expressed mainly through online channels rather than escalating into frequent, large-scale protests.
- The broader public must **continue to tolerate** the state's expanding role in daily life, including paternalistic policies and intensified ideological campaigns.

Trigger conditions could push China off this trajectory:

- A sustained **youth unemployment rate** above 20%,[6] especially if accompanied by growing protest size and frequency, would raise stability risks.[7]
- Mounting stress in **local government financing vehicles**—the off-balance-sheet entities that borrow heavily to fund infrastructure—could lead to refinancing difficulties, cascading into delayed public-sector wages, missed pension payments, or cuts to basic services, sparking anger among the elderly and public employees.
- Rising **rural-urban inequality** or a surge in **emigration**, whether of disillusioned youth or wealthy entrepreneurs and skilled professionals—an outgrowth of "rùn" culture—would signal declining confidence in the future and further sap innovation and growth.[8]

External shocks, such as a sharp export slump or expanded sanctions on critical technologies, would magnify these risks. Taken together, these pressures underscore that fiscal and social stability are the most fragile fault lines as Beijing manages demographic decline.

What to Watch

These are the key indicators to watch in 2026:

- **Productivity.** Evidence that Beijing is doubling down on AI and automation will be visible in State Council or National Development and Reform Commission directives prioritizing labor-substitution technologies. Reports of major investments in robotics or AI-enabled manufacturing would confirm this push. Conversely, any slowdown or reduction in such initiatives would signal weaker efforts to offset headwinds to productivity. Key indicators to monitor include the manufacturing Purchasing Managers' Index, industrial value-added per worker, total factor productivity, and changes in the Consumer Price Index that may reflect shifts in efficiency or production costs.
- **Welfare.** A formal State Council or Ministry of Human Resources and Social Security notice launching national pension pooling would indicate Beijing's capacity to recentralize fiscal resources. Retirement-age reform pilots, especially if paired with childcare or eldercare expansion, would reinforce the baseline. Delays, shelving, or reports of arrears would signal slippage.
- **Pronatalism.** Ideological hardening will be clear if *People's Daily* or Xinhua editorials shift from "encouraging" births to framing childbearing as a patriotic duty. Policy moves such as

expanding cash subsidies, tax breaks, or housing incentives for second and third births would further signal intensification. Silence, or a return to softer rhetoric, would suggest retreat. Fertility rates stabilizing near 1.0–1.2 in National Bureau of Statistics releases would align with the forecast; a sudden bump above this range is unlikely, and would be a surprise.

- **Youth unemployment.** The key risk indicator is whether unemployment holds in the range of 15%–19% without triggering frequent large-scale protests. A sustained rise above 20%, combined with growing demonstrations, would threaten social stability.

Alternative Scenarios

Looking ahead to 2026 and the following three to five years, China faces three plausible trajectories:

- **Baseline (most likely):** Growth slows but remains positive at 3.5%–4.0%.[9] Social discontent is managed through state paternalism, expanded welfare programs, stronger ideological messaging, and tighter political control. Fertility remains stuck near 1.0–1.2 despite incentives. This pathway reflects the triangular dilemma most directly: Modest productivity gains and limited welfare expansion are sustained, but pronatalism fails, leaving long-term dynamism eroded.
- **Alternative 1:** Beijing converts demographic pressure into a driver of renewal. Investments in AI, robotics, and eldercare technology yield major productivity gains, offsetting demographic drag. New policies promoting the “gray economy,” drawing lessons from Japan by expanding industries and employment linked to aging, would further reinforce this shift. Yet this scenario sharpens the triangle’s challenge: While productivity rises, automation could crowd out youth employment, undermining social stability unless it is complemented by large-scale job creation in service and care sectors.
- **Alternative 2 (least likely):** Demographic shock ensues. Here, financial stress and missed pension payments collide with elite and youth disillusionment, triggering flashpoints such as arrears in a major province. In this scenario, the welfare side of the triangle collapses, forcing Beijing into reactive measures that heighten legitimacy risks.

Across all scenarios, the triangular challenge—the trade-offs among productivity, welfare, and fertility—defines the constraints. The baseline will hold if Beijing manages two sides at once in productivity and welfare; a shift toward innovation or crisis will emerge if one of these two sides falters.

Strategic Implications

If the baseline holds (i.e., slowing growth, low fertility, and expanded state paternalism), Beijing’s stronger ideological messaging and targeted welfare will deepen political control in family policy while widening the rural-urban divide. Centralized fiscal control, industrial upgrading, and AI-driven productivity gains will disproportionately benefit major urban hubs, while rural areas will face faster aging, outmigration, and shrinking public services. Although fiscal centralization could in principle equalize welfare provision, in practice it is likely to channel scarce resources toward economically strategic cities, leaving rural areas further behind. This dynamic will concentrate opportunity and fiscal resources in cities, putting social cohesion and political legitimacy at greater risk.

To manage the triangle successfully, Beijing would need to sequence rather than simultaneously pursue its goals—prioritizing productivity and welfare in the short term while lowering structural barriers (housing, childcare, gender equity) in order to make long-term pronatalism viable. Success would require substantial central fiscal support, including greater redistribution to local governments and relief for their mounting debts, alongside credible retirement-age reform and major investment in family-care infrastructure, an alignment that has historically proven difficult but remains the only path to stabilizing growth and legitimacy.

Policy Shaping and Conclusion

China's demographic transition is reshaping not only its population structure but also the foundations of its political economy. The interplay between productivity, welfare, and fertility defines the country's central dilemma: Each pillar is essential to sustaining growth and stability, yet pursuing all three simultaneously under fiscal and demographic constraints remains exceedingly difficult. The years ahead will test Beijing's ability to manage this tension, whether through sequencing, innovation, or deeper structural reform. The Fourth Plenum and early 15th Five-Year Plan signals confirm that Beijing recognises the demographic challenge not simply as a growth headwind but as a structural governance challenge, which validates the triangular framing of productivity, welfare, and fertility as mutually constraining pillars.

China's experience underscores a universal challenge: how to adapt growth models, welfare systems, and family policy to the realities of aging societies.

From a broader policy perspective, China's experience underscores a universal challenge: how to adapt growth models, welfare systems, and family policy to the realities of aging societies. In this context, fostering demographic resilience will require not only technological adaptation but also renewed attention to intergenerational equity, care infrastructure, and gender balance in both paid and unpaid work. Policies that strengthen the social foundations of care through childcare, eldercare, and labor protections can mitigate the trade-offs among productivity, welfare, and fertility that define the "triangle" at the heart of this report.

Endnotes

1 "Prospects for China's Long-Term Growth Amidst Population Aging," ASEAN Macroeconomic Research Office, December 12, 2023, https://www.amro-asia.org/wp-content/uploads/2023/12/AN_Chinas-Long-term-Growth-Prospect-2023-12-11_clean.pdf.

2 "Age Dependency Ratio (% of Working-Age Population)—China," World Bank Group, accessed October 16, 2025, https://data.worldbank.org/indicator/SP.POP.DPND?locations=CN; "How Severe Are China's Demographic Challenges?," China Power, March 6, 2023, updated January 31, 2024, https://chinapower.csis.org/china-demographics-challenges/.

3 Chad de Guzman and Koh Ewe, "China Unveils Extensive 'Silver Economy' Plan to Adapt to Aging Population," Time, January 16, 2024, https://time.com/6555949/china-silver-economy-aging-population-plan/.

4 "Tariff-Induced Recession Risk," Goldman Sachs, April 21, 2025, https://www.goldmansachs.com/insights/top-of-mind/tariff-induced-recession-risk; "World Population Prospects 2024: Summary of Results," United Nations Department of Economic and Social Affairs, 2024, https://population.un.org/wpp/assets/Files/WPP2024_Summary-of-Results.pdf; "Youth Unemployment Rate (%), Ages 15–24," World Bank Group, November 18, 2024, https://humancapital.worldbank.org/en/indicator/WB_HCP_UNE_2EAP_MF_Y?geos=CHN.

5 K. Lesli Ligorner and Yuting Zhu, "China Announces Plan to Gradually Increase Statutory Retirement Age," Morgan Lewis, September 19, 2024, https://www.morganlewis.com/pubs/2024/09/china-announces-plan-to-gradually-increase-statutory-retirement-age; Li Yang, "Towards Equity and Sustainability? China's Pension System Reform Moves Center Stage," World Inequality Lab, April 2021, https://wid.world/www-site/uploads/2021/04/WorldInequalityLab_WP2021_13_China_PensionSystem.pdf.

6 Barclay Bram, "The 19 Percent," Asia Society Policy Institute, accessed October 16, 2025, https://asiasociety.org/policy-institute/19-percent.

7 There is no universally agreed-upon threshold, but sustained youth unemployment rates above roughly 20% have often coincided with heightened risks of social unrest in the past. For example, during the 2008 financial crisis, youth unemployment in the European Union hovered above 20% and was accompanied by widespread protests and political mobilization across several member states. See Kari Paasonen, "Are the Unhappy Unemployed to Blame for Unrest? Scrutinising Participation in the Arab Spring Uprisings," *Peace Economics, Peace Science and Public Policy* 26, no 1 (2020): 20190007, https://doi.org/10.1515/peps-2019-0007.

8 Juan Zhang, "'Rùn!' (Part 1): Why Is China's Urban Youth Searching for a Way Out?," The Mobility, Technology and Wellbeing Lab, August 2022, https://www.eth.mpg.de/molab-inventory/reproduction-migration/run-part-one-why-is-Chinas-urban-youth-searching-for-a-way-out.

9 Goldman Sachs, "Tariff-Induced Recession Risk."

Can China Sustain Its Rise as a Global Biomedical Innovator?

Patrick Beyrer and Chang Liu

Photo by Yuguang Zhang via Getty Images

The Stakes: Leading on the World Stage

The year 2025 may very well be known as the tipping point when China's leading-edge innovation in pharmaceuticals and biotechnology was finally recognized as such by global companies, investors, and observers. In February 2025, Phase III clinical trial results from ivonescimab—the novel cancer therapy from Chinese biomedical innovator Akeso—were widely shared and heralded as a "DeepSeek moment" for China's biomedical industry, with ivonescimab outperforming established Western competitors.[1] As several statistics confirmed later in the year, China (7,100) surpassed the United States (6,000) as the most popular destination for clinical trials in 2023–2024, an unthinkable milestone only a few years ago.[2]

An increase in the quantity of trials was accompanied by a commensurate increase in quality, as Western companies and investors flocked to support Chinese biotechnology's initial public offerings (IPOs) and strike licensing arrangements for promising Chinese drugs. Analysts projected that 37% of pharmaceutical licensing deals will be sourced from Chinese firms in 2025, compared to approximately 20% last year, while the Hang Seng's Biotech Index had risen more than 100% by the third quarter of 2025.[3] Morgan Stanley has suggested that annual revenue from drugs originating from China may exceed $34 billion by 2030.[4]

President Xi Jinping has implicitly recognized the strategic opportunity that China's growing capabilities in the biomedical sector may create on the global stage, as nearly a quarter of international CEOs who met with Xi in March 2025 were biomedical and pharmaceutical executives, the largest delegation from any industry.[5] As biotechnology, biomanufacturing, and pharmaceutical development remain high strategic priorities for reaching China's indigenous innovation objectives—made clear by Premier Li Qiang's mention of the sectors alongside other strategic areas like artificial intelligence (AI) and 6G in the 2025 Government Work Report—2026 will be a critical moment when China can solidify its global leadership in the biomedical industry for years to come.[6] How China harnesses its momentum in biotechnology will shape domestic health, industrial policy, global medical supply chains, and even U.S.-China relations.

Core Dilemma: Stay Open for Collaboration or Close Up in the Name of Security

China's "biotech boom" has emerged as Beijing continues to push pharmaceutical manufacturing up the country's value chain and as the industry has been folded into the global geopolitical competition with the United States and the European Union (EU), which have both demonstrated increasing concern over Chinese domination of the pharmaceutical supply chain.[7]

The United States is estimated to depend on China for 44% of all pharmaceutical imports by weight—15% of active pharmaceutical ingredient (API) manufacturers for essential medicines are based in China, 100 APIs for generic medicines can only be sourced in China, and 12% of APIs in U.S. drugs rely solely on China-sourced key starting materials. Recognizing this, Washington is moving quickly under the second Donald Trump administration to reduce supply chain vulnerabilities vis-à-vis China through a carrot-and-stick approach.[8] The Trump administration's Section 232 national security investigation into pharmaceuticals has built a foundation for implementing a wide variety of trade remedies—including tariffs—to reduce dependence on Chinese and other foreign drug supplies while reattracting manufacturing investments to the United States.[9]

China surpassed the United States as the most popular destination for clinical trials in 2023–2024, an unthinkable milestone only a few years ago.

Analysts agree that this policy mosaic is designed to pursue a comprehensive pharmaceutical de-risking strategy from China, which the EU has also signaled.[10] In 2025, the EU initiated its own trade actions against Chinese chemical inputs used in pharmaceutical manufacturing as well as medical devices, to which China responded in kind.[11] Several of these policies hinge on genuine trade concerns, but their possible escalation to a more aggressive form of supply-chain targeting would threaten China's international biomedical partnerships, investment, and status as a global innovation leader.

Domestically, although the economic importance of the biomedical sector has been elevated to the strategic level by national leaders, health policy constraints—both political and regulatory—may prevent China from achieving its full potential as an innovator. Since the initiation of an anti-corruption crackdown in the healthcare sector during the summer of 2023, over 40,000 medical officials have been punished or removed from their posts, including more than 350 top figures.[12] Several individuals are under investigation, including Bi Jingquan, former chief of the China Food and Drug Administration, who was once viewed as China's foremost champion of reform for regulatory innovation and international cooperation.[13] This year's Central Commission for Discipline Inspection's fourth plenary meeting communiqué, as well as recent National Health Commission reports on the crackdown, make clear that efforts to root out "mass corruption" in the health sector remain ongoing, with no signs of conclusion in the near term.[14]

How China and foreign stakeholders reconcile these imperatives—preserving collaboration where it is strategically beneficial while managing security and governance concerns—will determine whether current gains pave the way for collaborative innovations or unravel into fragmented, rival innovation ecosystems.

Outlook for 2026

Despite ongoing geopolitical turbulence and domestic health policy uncertainties, China is likely in 2026 to consolidate its position as a major biomedical innovator, delivering "cheaper and faster (and sometimes better)" alternatives to therapies produced and research and development (R&D) conducted in the United States and elsewhere.[15] Further, with the release of the 15th Five-Year Plan (FYP) and the rise of AI-enabled biotechnology applications, China will seize 2026 to chart out pharmaceutical and biomedical development as a cornerstone state priority, reaching new heights of national significance and producing favorable conditions for the scale-up of promising programs.

China is likely in 2026 to consolidate its position as a major biomedical innovator, delivering "cheaper and faster (and sometimes better)" alternatives to therapies produced elsewhere.

Yet growth will be constrained, as external decoupling, the healthcare anti-corruption crackdown, and uneven biotechnology deployment may cap the upper limit of China's progress. Nevertheless, China will seek to capitalize on its year of biotechnology breakthroughs in 2025 to market itself to the world as not only a dependable supply chain partner but a leading-edge biomedical innovator to interested global stakeholders.

Conditions and Contingencies

Even as biomedical innovation becomes increasingly bifurcated in terms of government-to-government cooperation, China has three principal advantages that forecast its continued strengths in pharmaceutical and biotechnology innovation:

- **Foreign investments.** Landmark investments, such as AstraZeneca's $2.5 billion global strategic Beijing R&D base, Pfizer's $1 billion "China 2030" R&D plan, Roche's $300 million high-tech manufacturing facility, and Sanofi's $1 billion Beijing insulin base and $275 million Innovation Fund, are among the headline investments that will keep Western pharmaceutical giants active in the Chinese market for years to come.[16] In the first half of 2025, Chinese firms signed 144 deals with foreign pharmaceutical companies, and by October had reached 93 out-licensing agreements valued at $85 billion.[17] Additionally, as China contributes over 30% of the global pipeline of innovative drugs, global pharmaceutical and biomedical companies have huge incentives to maintain a presence in the Chinese market, to monitor, collaborate, and compete with local players.[18]
- **IPOs and regulatory access.** Even in view of the anti-corruption crackdown, numerous

Chinese pharmaceutical companies in 2025 completed Hong Kong IPOs, reflecting investor appetite in the sector. In the first half of 2025, 36 biotechnology companies filed for IPOs with the Hong Kong Stock Exchange (HKEX), 34 of which are headquartered in mainland China.[19] The standout performance of national champion drugmakers such as Jiangsu Hengrui—which exceeded its IPO target of $1.27 billion,[20] the largest pharmaceutical IPO on the HKEX in five years—combined with new regulatory pathways for biotechnology unveiled by the HKEX in May have spurred companies' interest in Hong Kong listings, and therefore access to foreign innovation networks and capital.[21]

- **Policy prioritization and regulatory predictability.** Biotechnology and pharmaceutical innovation continue to top Beijing's list of technology development priorities heading into 2026. A report presented to the State Council in June 2025 on "new quality productive forces" highlighted progress in the sector.[22] Meanwhile, the August 2025 AI+ Implementation Plan ranks AI integration into medical services as a priority, pointing to new forms of state investment and support for China's biomedical innovation ecosystem alongside major vehicles of support like the 15th FYP.[23]

What to Watch

Beyond the advantages laid out earlier, several signposts through 2026 are poised to provide indicators of China's progress in cementing—or challenging—its place as a global biomedical innovator.

- **On the domestic policy side**, to create a viable road map for biomedical innovation, China will seek to buttress its overall 15th FYP with significant emphasis on drug development, biotechnology, and public health. The 15th FYP communiqué and Central Committee Proposal notionally point in this direction by underscoring China's increasing scientific self-sufficiency and increasing support for the private sector.[24] An early indicator of such heightened policy support from authorities will be distinct policy action, building on Premier Li Qiang's August 2025 field visit to Beijing's Changping Laboratory and several prominent Chinese biotech firms.[25]
- To fully realize such **unburdened biomedical innovation objectives**, Beijing may consider quietly slowing its anti-corruption campaign and continuing to provide favorable foreign investment regulations, such as those allowing full foreign ownership of private hospitals at a pilot level, or zero-tariff arrangements on drugs and medical devices modeled in special Hainan innovation zones.[26] The implementation of the National Medical Products Administration's new policy on clinical trial reviews would also support these goals by shrinking the approval period for innovative drug trials from 60 to 30 days.[27] Further, a September 2025 symposium convened by the National Health Commission with Chinese and global pharmaceutical executives demonstrated Beijing's attention to encouraging foreign-funded enterprise investment over the next year.[28]
- **Internationally**, continuing growth in out-licensing deals, R&D partnerships, and further biotechnology success on the HKEX would portend China's ongoing rise in global biomedical leadership.[29]

- **Conversely**, a ramp-up of anti-corruption efforts and reduced Chinese pharmaceutical IPO listings could augur a biotechnology stagnation. Increasingly coordinated U.S.-EU economic security efforts targeting Chinese APIs, drug supply chains, and possibly out-licensing arrangements would risk cutting Chinese pharmaceutical partnerships out of global ecosystems, exacerbating the trend toward bifurcation.[30] In this context, China could also weaponize its supply chain dominance as U.S.-China tensions escalate by imposing certain export controls and restrictions on both pharmaceuticals and their ingredients, which some analysts have called a "nuclear option."[31]

Alternative Scenarios

- **If current conditions hold,** China will be poised to climb the global pharmaceutical value chain and continue apace with record-breaking out-licensing and research commitments from foreign pharmaceutical players in 2026. Increasingly stabilized U.S.-China relations, a reduction in security scrutiny of Chinese pharmaceutical supply chain dependencies, and a slowdown in healthcare anti-corruption efforts would support such a trend.
- **Alternatively,** it is possible that China's biomedical sector will experience setbacks in 2026. In the context of possible deteriorations in U.S.-China negotiations, foreign investors and developers may see the China market as an opportunity not worth its risks, especially as Washington courts new pharmaceutical supply chain arrangements with European and global partners. Moreover, if U.S. tariffs on Chinese pharmaceuticals make Chinese sourcing untenable, and if Washington finds viable alternatives in the EU and India (whose API ecosystem is, paradoxically, reliant on China), China may lose its status as a "must-have market," all while domestic challenges could cause policymakers to reduce focus on innovation.[32]

Strategic Implications

If biomedical R&D is executed to its potential as predicted in the forecast, then clinical trials, medical innovations, and life-saving therapies could be delivered to Chinese and global patients on a scale never seen before, thereby boosting economic development and bolstering Beijing's political legitimacy.

Externally, China's biomedical development is set to deliver mixed results. As Washington responds to China's biotechnology ascendance with de-risking, onshoring, and punitive measures, the certainty of Chinese biomedical innovation will not automatically be accompanied by investment success. Biomedical companies and investors will need to carefully consider how Chinese supply chains may be distorted and even ruptured by trade tensions and conflict scenarios.

Although China's global biomedical expansion will assuredly be sustained by foreign investment in the near term, stakeholders may have to choose sides in this new area of geopolitical contestation, resulting in a high-stakes, drawn-out competition.

Policy Shaping and Conclusion

As the space for direct government-to-government coordination on biomedical research and manufacturing has constricted over the past year, the bifurcating innovation systems of China and the United States are being held together by strong private-sector links. These links—including critical R&D partnerships, manufacturing arrangements, and venture investments—provide a window for companies to control and diffuse cutting-edge pharmaceuticals and R&D methods.

Despite the gradual inclusion of biomedical innovation in China's great-power competition with the United States, opportunities for industry collaboration with China at the helm still exist, largely driven by the private sector. As China is incrementally recognized worldwide as not just a manufacturing powerhouse but a major biomedical agenda setter, companies will have few alternatives but to remain in the Chinese market, both for profit returns and for cutting-edge R&D functions. These companies can drive global partnerships that could weather the test of geopolitics—and even improve them—by creating jointly discovered therapies and building supply chain resiliency benefiting patients across the globe.

Endnotes

1 David Wainer, "The Drug Industry Is Having Its Own DeepSeek Moment," *The Wall Street Journal*, February 7, 2025, https://www.wsj.com/health/pharma/the-drug-industry-is-having-its-own-deepseek-moment-68589d70?mod=Searchresults_pos10&page=1; Wayne Chang, Will Ripley, and Eric Cheung, "A Little-Known Chinese Company Made a Drug That Beat the World's Biggest-Selling Medicine," CNN, February 25, 2025, https://www.cnn.com/2025/02/25/business/china-biotech-global-disruption-intl-hnk.

2 Till Bruckner, "New Study Shows That China Is Now a Global Powerhouse of Clinical Research," TranspariMED, May 26, 2025, https://www.transparimed.org/single-post/new-study-shows-that-china-is-now-a-global-powerhouse-of-clinical-research; Adriel Bettelheim and Maya Goldman, "China's Biotech Boom Leaves U.S. Playing Catch-Up," Axios, May 29, 2025, https://www.axios.com/2025/05/29/china-biotech-boom-us-drug-trials.

3 Stifel Healthcare, "Biopharma Market Update," March 31, 2025, https://www.stifel.com/newsletters/investmentbanking/bal/marketing/healthcare/biopharma_timopler/2025/BiopharmaMarketUpdate_033125.pdf; Gabrielle Masson, "China Biotechs 'Reshaping' US Biopharma as Outlicensing Deals Rise 11%: Jefferies Report," Fierce Biotech, July 14, 2025, https://www.fiercebiotech.com/biotech/china-biotechs-reshaping-us-biopharma-outlicensing-deals-rise-11-jefferies-report; "Chinese Biotech Shares Surge as Big Pharma Looks to License Cancer Treatments," *Financial Times*, July 13, 2025, https://www.ft.com/content/1beb84a6-71c1-494f-8a6c-b10a5da8b01b; Brian Roberts, "Accessing China's Biotech Breakthrough via HKEX's Product Ecosystem," Hong Kong Stock Exchange, October 14, 2025, https://www.hkexgroup.com/media-centre/insight/insight/2025/brian-roberts/accessing-china-biotech-breakthrough-via-hkex-product-ecosystem?sc_lang=en#:~:text=Key%20Takeaways,growth%20in%20the%20past%20decade.

4 "The Innovation Boom in China Biotech," Morgan Stanley, September 10, 2025, https://www.morganstanley.com/insights/articles/china-biotech-boom-generics-to-innovators.

5 "Xi Jinping Meets with Representatives of the International Business Community," Xinhua News Service, March 28, 2025, http://www.news.cn/20250328/403f5797c73c41bbaf737f4f0636aeee/c.html; Joe Cash and Casey Hall, "China's Xi Urges Global CEOs to Protect Trade as Trump Tariffs Loom," Reuters, March 28, 2025, https://www.reuters.com/world/china/chinese-president-xi-meets-with-global-ceos-beijing-xinhua-reports-2025-03-28/.

6 "Government Work Report—Premier Li Qiang at the Third Session of the Fourteenth National People's Congress," Xinhua News Service, March 12, 2025, https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm.

7 Jacob Dreyer, "China's Biotech Is Cheaper and Faster," The New York Times, August 17, 2025, https://www.nytimes.com/2025/08/17/opinion/china-biotech.html; Maya Goldman, "China Is Beating U.S. in Biotech Advances, Report Warns," Axios, April 8, 2025, https://www.axios.com/2025/04/08/china-beating-us-biotech-advances-report.

8 Shannon K. O'Neil, Julia Huesa, and Gabriela Paz-Soldan, "A Guide to Trump's Section 232 Tariffs, in Maps," Council on Foreign Relations, October 8, 2025, https://www.cfr.org/article/guide-trumps-section-232-tariffs-nine-maps; Janet

Woodcock, "Safeguarding Pharmaceutical Supply Chains in a Global Economy," testimony before the U.S. House Committee on Energy and Commerce, Subcommittee on Health, October 30, 2019, https://www.fda.gov/news-events/congressional-testimony/safeguarding-pharmaceutical-supply-chains-global-economy-10302019; "Generic Drugs," U.S. Food and Drug Administration, updated March 13, 2025, https://www.fda.gov/drugs/buying-using-medicine-safely/generic-drugs; Shyam Sankar and Julia Dimon, "The Bitter Pill of Reliance on China," *The Wall Street Journal*, April 17, 2025, https://www.wsj.com/opinion/the-bitter-pill-of-reliance-of-china-reliance-supply-chain-drugs-medications-cc961e00?gaa_at=eafs&gaa_n=ASWzDAhowFCttpmbb0gOMb5InTW5n35_Ll76qLfImkNIv72MdOEJjMeXYflXKuOqqMs%3D&gaa_ts=68a26900&gaa_sig=22i8Jy88PaeiXF7wFmwrbBfu6jE7JHknrtpG0Jr-FNaeR21AdjBSlaGZyt-qWFhnqfvB4h-LG9FiekSwNZolHw%3D%3D; Gabriela Grasa Mannino, Shreyash Suryavanshi, Erkan Duman, Rohit Lokhande, Evgenia Razumovski, Vimala Raghavendran, and Marissa Malta, "Concentrated origins, widespread risk: New USP insights on key starting materials," USP, October 14, 2025, https://qualitymatters.usp.org/concentrated-origins-widespread-risk-new-usp-insights-key-starting-materials.

9 "Notice of Request for Public Comments on Section 232 National Security Investigation of Imports of Pharmaceuticals and Pharmaceutical Ingredients," U.S. Department of Commerce, Bureau of Industry and Security, April 16, 2025, https://www.federalregister.gov/documents/2025/04/16/2025-06587/notice-of-request-for-public-comments-on-section-232-national-security-investigation-of-imports-of.

10 Marta E. Wosińska, "Will Pharmaceutical Tariffs Achieve Their Goals?," Brookings Institution, March 27, 2025, https://www.brookings.edu/articles/pharmaceutical-tariffs-how-they-play-out/.

11 "EU Acts Against Dumped Imports of Lysine from China," European Commission, July 11, 2025, https://policy.trade.ec.europa.eu/news/eu-acts-against-dumped-imports-lysine-china-2025-07-11_en; "EU Acts Against Dumped Imports of Vanillin from China," European Commission, June 12, 2025, https://policy.trade.ec.europa.eu/news/eu-acts-against-dumped-imports-vanillin-china-2025-06-12_en; "Commission Restricts Chinese Participation in Medical Devices Procurement," European Commission, June 19, 2025, https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1569; Zhong Nan, "China Takes Measures Against EU Medical Device Curbs," *China Daily*, July 6, 2025, https://www.chinadailyhk.com/hk/article/615323.

12 Xinlu Liang, "40,000 Punished in China's Medical Corruption Crackdown, Including over 350 Top Figures," *South China Morning Post*, January 1, 2025, https://www.scmp.com/news/china/politics/article/3293019/40000-punished-chinas-medical-corruption-crackdown-including-over-350-top-figures.

13 Pui Gwen Yeung and Li Liu, "China Probes Former Food and Drug Authority Chief for Violation," Bloomberg, May 29, 2025, https://www.bloomberg.com/news/articles/2025-05-29/china-probes-former-food-and-drug-authority-chief-for-violation-mb9ep0u5; "Bi Jingquan, Executive Vice Chairman of CCIEE, Attends Bloomberg New Economy Forum and the Special Meeting of Bloomberg New Economy International Cancer Coalition," China Center for International Economic Exchanges, December 6, 2021, http://english.cciee.org.cn/Detail.aspx?newsId=19650&TId=51.

14 "Communiqué of the Fourth Plenary Session of the 20th Central Commission for Discipline Inspection of the Communist Party of China," Xinhua News Service, January 8, 2025, http://www.news.cn/politics/leaders/20250108/a5489461a0fc4187a55fab6ca1dc9bd1/c.html; "Notice on the Issuance of the Key Points for Correcting Malpractices in the Pharmaceutical Procurement and Sales Sector and in Medical Services in 2025," Beijing Municipal Tax Service, State Tax Administration, July 4, 2025, http://beijing.chinatax.gov.cn/bjswj/c104522/shouye_cy.shtml.

15 Dreyer, "China's Biotech Is Cheaper and Faster."

16 "AstraZeneca to Invest $2.5 Billion in New Global Strategic R&D Centre, Biotech Agreements and Manufacturing in Beijing," AstraZeneca, press release, March 21, 2025, https://www.astrazeneca.com/media-centre/press-releases/2025/astrazeneca-invests-2-and-half-bn-in-beijing-r-and-d-and-manufacturing.html; Wei Guanhong, "Dialogue with Pfizer President: Pfizer Will Invest US$1 Billion in China over the Next Five Years to Accelerate Innovative Drug Research and Development," *National Business Daily*, November 6, 2024, https://finance-sina-com-cn.translate.goog/roll/2024-11-06/doc-incvcvry1649536.shtml?_x_tr_sl=auto&_x_tr_tl=en&_x_tr_hl=en&_x_tr_pto=wapp; Fraiser Kansteiner, "Roche Pledges Nearly $300M to Establish New Vabysmo Production Plant in China," Fierce Pharma, May 9, 2025, https://www.fiercepharma.com/pharma/roche-pledges-nearly-300m-establish-new-vabysmo-production-plant-china; Fraiser Kansteiner, "Sanofi Charts Biggest China Investment to Date with Plans for €1B Insulin 'Manufacturing Base' in Beijing," Fierce Pharma, December 2, 2024, https://www.fiercepharma.com/pharma/sanofi-charts-biggest-china-investment-date-plans-eu1b-insulin-manufacturing-base-beijing; Yoana Cholteeva, "French Pharma Group Sanofi Forms $275m China Drugs Fund," Global Corporate Venturing, April 4, 2025, https://globalventuring.com/corporate/asia/french-pharma-group-sanofi-forms-275m-china-drugs-fund/.

17 Alice Li, "China Vows Stronger Biotech Support as Deals with Global Pharmaceutical Giants Surge," *South China Morning Post*, August 21, 2025, https://www.scmp.com/economy/china-economy/article/3322656/china-vows-stronger-biotech-support-deals-global-pharmaceutical-giants-surge; Eleanor Olcott, Haohsiang Ko and William Sandlund, "The relentless rise of China's biotechs," *Financial Times*, October 27, 2025, https://www.ft.com/content/c0a1b15b-84ee-4549-85eb-ed3341112ce5.

18 Xinyi Wu, "China Closes Biotech Gap with US as New Drugs, R&D Pipelines Top 30% of Global Total," *South China Morning Post*, September 5, 2025, https://www.scmp.com/economy/china-economy/article/3324465/china-closes-biotech-gap-us-new-drugs-rd-pipelines-top-30-global-total.

19 Marian (YoonJee) Chu, "34 Mainland China Biotechs File for Hong Kong IPO in H1 2025," BioWorld, July 22, 2025, https://www.bioworld.com/articles/722457-34-mainland-china-biotechs-file-for-hong-kong-ipo-in-h1-2025?v=preview.

20 Scott Murdoch, "China's Jiangsu Hengrui Pharmaceuticals Aims to Raise up to $1.27 Billion in HK Listing," Reuters, May 15, 2025, https://www.reuters.com/business/healthcare-pharmaceuticals/chinas-jiangsu-hengrui-pharmaceuticals-aims-raise-up-127-billion-hong-kong-ipo-2025-05-14/.

21 "Technology Enterprises Channel (TECH)," Hong Kong Stock Exchange, accessed October 16, 2025, https://www.hkex.com.hk/Listing/Rules-and-Guidance/Technology-Enterprises-Channel?sc_lang=en.

22 Gazette of the Standing Committee of the National People's Congress of the People's Republic of China (2025, No. 4 [General Issue No. 377]), Beijing: General Office of the Standing Committee of the National People's Congress, July 15, 2025, http://www.npc.gov.cn/npc/c2/c30834/202508/P020250813598641030534.pdf.

23 "Opinions of the State Council on Deepening the Implementation of the 'Artificial Intelligence Plus' Action," State Council of the People's Republic of China, August 21, 2025, https://www.gov.cn/zhengce/content/202508/content_7037861.htm.

24 "The Communiqué of the Fourth Plenary Meeting of the 20th Central Committee of the Communist Party of China," Xinhua News Agency, October 23, 2025, http://www.news.cn/politics/20251023/777d21b244c4405c84b544d7cc43e236/c.html; Xiaofei Xu, "China Unveils 5-year Plan's Support for Private Sector, Strengthening Financial Power," *South China Morning Post*, October 28, 2025, https://www.scmp.com/economy/china-economy/article/3330637/china-unveils-5-year-plans-support-private-sector-strengthening-financial-power; Jeremy Mark, "The Winners and Losers from China's Next Five-Year Plan," *Atlantic Council*, October 24, 2025, https://www.atlanticcouncil.org/blogs/new-atlanticist/the-winners-and-losers-from-chinas-next-five-year-plan/.

25 "Chinese Premier Calls for Sci-Tech, Policy Support to Boost Bio-medicine Industry," State Council of the People's Republic of China, August 21, 2025, https://english.www.gov.cn/news/202508/21/content_WS68a65e1bc6d0868f4e8f4fa0.html.

26 "China Allows Establishment of Wholly Foreign-Owned Hospitals in Major Cities," State Council of the People's Republic of China, November 20, 2024, https://english.www.gov.cn/news/202411/30/content_WS674a493ac6d0868f4e8ed8a9.html; Zoey Zhang, "Hainan Medical Tourism Zone: New Pilot Policies Rolled Out," China Briefing, October 7, 2019, https://www.china-briefing.com/news/hainan-medical-tourism-zone-new-pilot-policies-rolled/.

27 Xu Hu, "China Rolls Out Nationwide 30-Day IND Pathway for Innovative Medicines," Citeline, September 23, 2025, https://insights.citeline.com/pink-sheet/pathways-and-standards/review-pathways/china-rolls-out-nationwide-30-day-ind-pathway-for-innovative-medicines-UWYKIZLYYVBOJE37CDFSPPB2DI/.

28 "The National Health Commission Held a Symposium on Chinese and Foreign Pharmaceutical Companies in 2025," National Health Commission of the People's Republic of China, September 29, 2025, https://www.nhc.gov.cn/bgt/c100022/202509/47a10824cb0d4acf9b7bbcfe2c73db01.shtml.

29 Sriparna Roy and Sneha S K, "US Pharma Bets Big on China to Snap Up Potential Blockbuster Drugs," Reuters, June 16, 2025, https://www.reuters.com/business/healthcare-pharmaceuticals/us-pharma-bets-big-china-snap-up-potential-blockbuster-drugs-2025-06-16/.

30 Rob Copeland and Rebecca Robbins, "U.S. Drugmakers Warn White House of Chaos as Trump Weighs Curbs on China," The New York Times, September 12, 2025, https://www.nytimes.com/2025/09/10/business/trump-medicines-china-biotech.html.

31 Colum Murphy, Amber Tong, Martin Ritchie, Kanoko Matsuyama, Ashleigh Furlong and Jing Li, "China's Pharma Leverage Is 'Nuclear Option' in US Trade Talks," Bloomberg, October 24, 2025, https://www.bloomberg.com/news/articles/2025-10-24/china-s-pharma-leverage-is-nuclear-option-in-us-trade-talks.

32 Marta E. Wosińska and Yihan Shi, "US Drug Supply Chain Exposure to China," Brookings Institution, July 28, 2025, https://www.brookings.edu/articles/us-drug-supply-chain-exposure-to-china/.

Will China Assume Greater Climate Leadership in Light of U.S. Retreat?

Li Shuo


Photo by STR/AFP via Getty Images

The Stakes: Prospects for Global Decarbonization

As the world's largest carbon emitter and a clean technology industrial powerhouse, China's climate ambition in 2026 will critically influence both global emissions and the viability of the Paris Agreement's targets to limit global warming to well below 2°C.[1] The year 2026 marks an inflection point shaping Beijing's choices. On one hand, China's emissions plateauing several years ahead of its 2030 target, coupled with unprecedented clean energy development, creates fertile ground for China's greater climate ambition. On the other hand, persistent economic headwinds and an altered geopolitical landscape could restrain China at the very moment it is preparing its 15th Five-Year Plan.[2]

Against the backdrop of a rapid U.S. retreat under the Donald Trump administration—marked by withdrawing from the Paris Agreement, dismantling clean energy incentives, undermining the legal foundation for regulating carbon emissions, and defunding key federal agencies—the central question is whether China will assume greater climate leadership or maintain a more cautious stance shaped by domestic and international constraints.[3]

China's climate calculus has always been inherently complex, shaped by a mix of competing interests, historical narratives, and geopolitical considerations. China has rapidly emerged as a global leader in renewable-energy technology and deployment: The country now produces more than 80% of the world's solar panels, 75% of electric vehicle batteries, and 60% of wind turbines, installing more solar capacity than the rest of the world combined.[4] Environmental protection and climate action are now clear political priorities for Beijing, tied to broader goals of ecological civilization and sustainable development.

Yet even as China's industrial capacity surges, its climate diplomacy remains cautious, hesitant to lead from the forefront at global climate forums. Constrained by economic headwinds and geopolitical tensions, the country continues to rely heavily on coal, expanding its fleet of coal-fired power plants and putting its carbon-intensity pledges in jeopardy.[5] How Beijing balances these competing pressures in 2026 will shape not only China's development path but also the prospects for global decarbonization.

Core Dilemma: Balancing Caution with Growing Power

China's reluctance to assume overt climate leadership reflects a convergence of domestic economic concerns, long-standing diplomatic traditions, and deep skepticism about the reliability of Western partners. Domestically, economic uncertainties continue to fuel anxiety among heavy industries and the regions that depend on them, tempering Beijing's appetite for aggressive climate policies that could threaten economic and political stability.[6] Internationally, Beijing approaches climate leadership with considerable caution. Shaped by a strong sense of fairness, an emphasis on collective action, and a tradition of reserved climate diplomacy, Chinese officials have long argued that climate change is a problem created primarily by Western historical emissions, and therefore it requires leadership first and foremost from industrialized countries.[7]

This paradox—China's industrial dominance in clean technology versus its political caution—will be a defining and persistent feature of China's trajectory.

This outlook is reinforced by wavering commitments from key Western capitals—most dramatically Washington and, to a lesser extent, Brussels—that undermine Beijing's willingness to act boldly.[8] China also resents the cyclical nature of Western climate politics, especially the periodic "lectures" it receives when conditions favor climate ambition in the West.[9] By contrast, Beijing argues that its steady, incremental approach, without claiming moral high ground, offers a more credible and sustainable path.[10] The return of Donald Trump and his destructive climate policies, widely seen in Beijing as causing lasting damage to the future U.S. and global climate discourse, has only deepened Chinese elites' doubts about the long-term viability of the collective climate action if the world's most powerful country remains unwilling or unable to commit.[11]

This paradox—China's industrial dominance in clean technology versus its political caution—will be a defining and persistent feature of China's trajectory. Rapid advances in China's cleantech production have outstripped political decision-making, leaving Beijing struggling to reconcile its status as a cleantech superpower with its reluctance to assume rhetorical leadership.

Outlook for 2026

In 2026, China is likely to pursue a "talk less, do more" strategy on climate. China will deepen its role as the world's leading industrial power of clean technologies, but it will be cautious in taking up the diplomatic mantle of climate leadership in the international arena. Rather than engage in symbolic contests for climate leadership, Beijing is expected to double down on industrial and commercial achievements—such as large-scale deployment of renewables, electric vehicles, and energy storage—that translate into steady and gradual emissions reductions and increased economic competitiveness.

Domestically, the Chinese government will maintain steady climate policies embedded in its forthcoming Five-Year Plan, emphasizing incremental progress while avoiding overly ambitious targets that could threaten economic growth or social stability.[12] Supported by rapid renewable-energy deployment, China's emissions are expected to peak in the mid-2020s—about five years earlier than initially committed.[13] This will spark new debates in 2026 about the pace and ambition of China's post-peak emissions reductions.

Internationally, Chinese companies will continue their aggressive expansion of clean energy exports, targeting emerging markets in Africa, Southeast Asia, Latin America, and the Middle East—regions with significant infrastructure needs and climate vulnerabilities.[14] This outreach aligns with China's broader diplomatic ambition, using clean energy projects as tools of soft power and economic integration.

Conditions and Contingencies

Realizing this forecast will depend on a convergence of enabling conditions across domestic policy, technological capacity, and geopolitical dynamics.

- **Politically**, China's leadership will prioritize economic stability, energy security, and industrial competitiveness over symbolic climate gestures and rapid emissions reduction. The government's cautious stance reflects its need to manage complex domestic challenges that aggressive climate measures might destabilize.
- **Economically**, China's clean energy sector must continue innovating and profitably penetrating global markets.
- **Geopolitically**, tensions with the U.S. and its allies will remain, but be contained enough for China to pursue pragmatic climate action.
- Finally, **a slowdown in Western climate ambition**—manifested through continued and dramatic backslides in Washington, and subtler but still consequential distractions in Brussels—will make China's incremental but steady approach more credible by comparison.

What to Watch

If the baseline scenario unfolds, 2026 will see Chinese leaders using climate policy tactically to project responsibility and reliability, contrasting their steadiness with perceived Western unpredictability.

- The government will embed **moderate but achievable climate targets** into its 15th Five-Year Plan, steering clear of headline-grabbing pledges. State support for domestic cleantech industries will intensify, with a strong focus on ensuring the long-term health of this strategic and hypercompetitive sector.[15]

- **Internationally**, China will engage constructively in multilateral forums such as the United Nations' climate COP process, and will foster bilateral cooperation, especially with Europe, while avoiding taking on unfair burdens or being seen as capitulating from these engagements.
- **Domestically** at the commercial level, competitive pressure on Chinese cleantech firms will persist, driving innovation, entrepreneurship, and cost reductions that benefit global decarbonization. However, the sector's cutthroat competition will see inevitable bankruptcies and consolidation. This will also prompt government efforts to prevent destructive rivalry.

Overall, Beijing's industrial interventions will remain pragmatic but dynamic: deepening corporate strengths, nurturing innovation, and expanding the global presence of "China, Inc." quietly but effectively.

Alternative Scenarios

- **Baseline (most likely):** China continues a pragmatic "results over rhetoric" strategy. Industrial leadership deepens, emissions peak in the mid-2020s, and global cleantech exports accelerate—but Beijing avoids symbolic contests over climate leadership.
- **Alternative 1:** In a bold move, China sees the strategic value of climate action in contrasting itself with the United States, and decides to build on President Xi Jinping's surprising 2020 carbon neutrality announcement by making further high-profile commitments—potentially in the direction of confirming the early emissions peak, doubling down on renewable energy support to climate-vulnerable countries, or specifying strong sectorial emissions targets. By doing so, Beijing will want to align with other high-ambition countries to reshape global climate governance in the context of prolonged U.S. absence, accelerating a shift in global climate power.
- **Alternative 2 (least likely):** Persistent, severe domestic economic crises or geopolitical upheaval force China to further delay its coal phasedown and reduce its climate commitments, thereby undermining global efforts and creating a leadership vacuum.

Strategic Implications

China's climate posture in 2026 will have wide-reaching implications for global decarbonization. The most likely scenario will see China remain a cautious political actor on the world stage. Yet beneath its measured diplomatic approach lies a steadily growing economic power—one that even China's traditionally slow-moving leadership increasingly recognizes. While this dynamic is unlikely to catalyze bold climate diplomacy in 2026 or meaningfully reshape U.S.-China relations given Washington's disinterest, its effects will accumulate over time, propelled by the firm economic foundations that Chinese policymakers have carefully built over the past two decades.

Crucially, China's pathway to climate leadership will not mirror Western models. Instead, it will blend commercial pragmatism with reserved diplomacy, reflecting its own political system, strategic priorities, and economic strengths. This divergence presents international counterparts with two interrelated challenges: how to engage productively with China's model of climate leadership, and how to adapt their own strategies in a more multipolar climate landscape.

Policy Shaping and Conclusion

Addressing these challenges requires first recognizing that alternative leadership models exist—and that, in some respects, China's steady, pragmatic approach may prove more effective over the long run than Western approaches. A key question is which model offers a stronger foundation for sustained global climate action: the predictable, if slow, "baseload" support provided by China, or the more volatile, boom-and-bust, and increasingly rhetorical political cycles that characterize U.S. climate engagement.

China's pathway to climate leadership will not mirror Western models; it will reflect its own political system and economic strengths.

The second challenge is to tailor an engagement strategy that works with China's unique mix of strengths and constraints. Entry points do exist, even in today's difficult geopolitical environment—for example, facilitating multilateral trade and investment frameworks that establish transparent and fair rules for expanding Chinese clean-energy technologies into the Global South. This could deliver dual benefits, spurring economic growth in developing countries while accelerating global emissions reductions. Likewise, dialogue platforms between China and Western countries centered on technology transfer and investment cooperation may prove far more productive than politicized, high-profile summits.

At the same time, Western policymakers must confront an urgent and uncomfortable "China question"—the matter of whether, when, and how they might need to work with and even rely on China when it comes to deploying low-carbon technologies critical for reducing emissions. The stakes are high. With China's dominance in the cleantech sector, recent reversals of industrial support in the United States, and rising protectionism in other key economies, the absence of a well-articulated and intellectually coherent answer to this question—or, alternatively, an answer that consists merely of a simplistic and politically charged "no," without convincing alternatives—could become one of the biggest obstacles to cutting emissions in the West.

In the end, China's climate trajectory in 2026 will likely be defined by a careful balance between industrial leadership and political caution. Recognizing this duality is essential for crafting realistic diplomatic and policy strategies that aim for constructive engagement. The coming year will be a test of whether China can reconcile its internal contradictions and emerge as a stronger driver of climate action in a world urgently searching for stable, credible leadership.

Endnotes

1 "Energy System of China," International Energy Agency, accessed October 17, 2025, https://www.iea.org/countries/china; "Key Aspects of the Paris Agreement," United Nations Climate Change, accessed October 17, 2025, https://unfccc.int/most-requested/key-aspects-of-the-paris-agreement.

2 Lauri Myllyvirta, "Analysis: Clean Energy Just Put China's CO2 Emissions into Reverse for First Time," Carbon Brief, May 15, 2025, https://www.carbonbrief.org/analysis-clean-energy-just-put-chinas-co2-emissions-into-reverse-for-first-time/; David Gelles, Somini Sengupta, Keith Bradsher, and Brad Plumer, "There's a Race to Power the Future. China Is Pulling Away," *The New York Times*, June 30, 2025, https://www.nytimes.com/interactive/2025/06/30/climate/china-clean-energy-power.html.

3 "Putting America First in International Environmental Agreements," The White House, January 20, 2025, https://www.whitehouse.gov/presidential-actions/2025/01/putting-america-first-in-international-environmental-agreements/; "Ending Market Distorting Subsidies for Unreliable, Foreign Controlled Energy Sources," The White House, July 7, 2025, https://www.whitehouse.gov/presidential-actions/2025/07/ending-market-distorting-subsidies-for-unreliable-foreign%E2%80%91controlled-energy-sources/; Valerie Volcovici, "US Reversal on Key Climate Finding Spells Uncertainty for Business," Reuters, July 31, 2025, https://www.reuters.com/legal/government/us-reversal-key-climate-finding-spells-uncertainty-business-2025-07-30/; Zack Colman, "'Set Up for Failure': Trump's Cuts Bring Climate and Energy Agencies to a Standstill, Workers Say," Politico, June 17, 2025, https://www.politico.com/news/2025/06/17/trumps-energy-cuts-means-agencies-failure-00406526.

4 "China to Hold over 80% of Global Solar Manufacturing Capacity from 2023-26," Wood Mackenzie, press release, November 7, 2023, https://www.woodmac.com/press-releases/china-dominance-on-global-solar-supply-chain/?utm_source=chatgpt.com; "Trends in Electric Vehicle Batteries," International Energy Agency, accessed October 17, 2025, https://www.iea.org/reports/global-ev-outlook-2024/trends-in-electric-vehicle-batteries?utm_source=chatgpt.com; Andrew Hayley, "Explainer: China's Dominance in Wind Turbine Manufacturing," Reuters, April 10, 2024, https://www.reuters.com/business/energy/chinas-dominance-wind-turbine-manufacturing-2024-04-10/; "China Building Twice as Much Wind and Solar as Rest of World Combined," Yale Environment 360, July 11, 2024, https://e360.yale.edu/digest/china-wind-solar-double-world.

5 Qi Qin and Lauri Myllyvirta, "Why China Is Still Building New Coal—and When It Might Stop," Carbon Brief, August 12, 2025, https://www.carbonbrief.org/guest-post-why-china-is-still-building-new-coal-and-when-it-might-stop/.

6 Anika Patel, "Explainer: What Does China's 'Two Sessions' Mean for Climate Policy in 2025?," Carbon Brief, March 13, 2025, https://www.carbonbrief.org/explainer-what-does-chinas-two-sessions-mean-for-climate-policy-in-2025/.

7 "Western Countries Bear Heavy Historical, Realistic Responsibility for Climate Change," *People's Daily*, December 7, 2023, https://en.people.cn/n3/2023/1207/c90000-20107276.html.

8 Kate Abnett, "Europe Champions Fighting Climate Change but Misses Emissions Deadline," Reuters, September 18, 2025, https://www.reuters.com/sustainability/cop/eu-set-miss-un-climate-deadline-amid-internal-divisions-2025-09-18/.

9 "China Calls EU Hypocritical over Criticism of Climate Goal," Reuters, September 26, 2025, https://www.reuters.com/sustainability/cop/china-calls-eu-hypocritical-over-criticism-climate-goal-2025-09-26/.

10 Christian Shepherd and Maxine Joselow, "China Resists Mounting Pressure to Do More on Climate Change," *The Washington Post*, October 31, 2024, https://www.washingtonpost.com/climate-environment/2024/10/31/china-climate-change-cop29/.

11 Sara Schonhardt, "China Doubles Down on Climate, Wind and Solar Pledges—a Day After Trump Called Them a 'Scam,'" Politico, September 24, 2025, https://www.politico.com/news/2025/09/24/china-doubles-down-on-climate-wind-and-solar-pledges-a-day-after-trump-called-them-a-scam-00579411.

12 Arendse Huld, "China's 15th Five-Year Plan: What We Know So Far," China Briefing, October 14, 2025, https://www.china-briefing.com/news/chinas-15th-five-year-plan-what-we-know-so-far/.

13 "An Energy Sector Roadmap to Carbon Neutrality in China," International Energy Agency, accessed October 17, 2025, https://www.iea.org/reports/an-energy-sector-roadmap-to-carbon-neutrality-in-china/executive-summary.

14 "China's Renewable Energy Expansion Continues with 114 Overseas Facilities Bypass Trade Restrictions," Wood Mackenzie, press release, August 5, 2025,

15 ttps://www.woodmac.com/press-releases/china-oversea-series/.

16 Huld, "China's 15th Five-Year Plan," China Briefing.

Can China Turn Its Clean Energy Dominance into Green Soft Power?

Kate Logan


Photo by -/AFP via Getty Images

The Stakes: A Chance to Lead on Climate

In 2026, China's clean technology companies will double down on overseas markets, driven by intensifying domestic price wars and the imperative to ensure future profitability.[1] Exports will expand, as will overseas investments in new manufacturing capacity—especially as international trade restrictions intensify and localization becomes more attractive. As firms engage abroad, they will face regulatory and political challenges from host countries, which must balance their own domestic industrial policies, energy security, and cost-competitive decarbonization. Geopolitical alignment will further complicate decision-making. As the Donald Trump administration aggressively promotes fossil fuel exports and discourages economic dependence on China, governments will face intensifying pressures from both Beijing and Washington.[2]

China now dominates the "new three" technologies of solar, electric vehicles (EVs), and batteries, as well as wind, making its role critical to the global energy transition.[3] Ample and affordable access to these technologies could represent a triple win: accelerating the fight against climate change, improving energy access, and ensuring energy security. In August 2025, China's National Energy Administration claimed that China's solar and wind exports reduced global carbon emissions by about 4.1 billion tonnes during the 14th Five-Year Plan, while independent analysts found that China's 2024 clean energy exports alone cut global emissions outside China by 1%.[4]

It remains to be seen whether Beijing and its cleantech sectors can secure political endorsement from host countries, maintain cost advantages, and scale rapidly. These questions carry major implications not only for China's geostrategic positioning and the commercial success of its clean technology firms, but also for the speed and scope of global emissions reductions and the world's energy transition. Moreover, obstacles and opportunities may diverge across solar, EVs, wind, and batteries, which will test China's ability to further adapt its global cleantech strategy across sectors.

Core Dilemma: Balancing Global Expansion and Strategic Control

China's cleantech companies—largely private enterprises—face an important challenge: They must expand internationally to sustain growth, yet Beijing risks undermining strategic advantages in their doing so.[5] Domestic overcapacity, intense price wars, and squeezed margins are forcing firms to seek markets abroad, especially higher-profit ones, yet this global push exposes them to growing political, regulatory, and security pressures.

A flood of low-cost Chinese exports has already triggered trade barriers across most developed markets, with some emerging economies, such as Brazil, Turkey, and Mexico, starting to follow suit.[6] Chinese companies are increasingly investing in overseas manufacturing bases, in part to bypass these trade restrictions.[7] Some countries have also adopted policies designed to attract investment on their own terms.[8] Host governments—especially in Western-aligned developed countries—will increasingly demand more in return, including technology transfer, local job creation, adherence to environmental and labor standards, and greater assurances around data security.

China's cleantech companies face an important challenge: They must expand internationally to sustain growth, yet Beijing risks undermining strategic advantages in their doing so.

Beijing faces a consequential trade-off: China's unfettered expansion without meaningful benefit sharing and alleviation of local concerns risks intensifying backlash that harms Chinese firms' commercial prospects, erodes China's green soft power, and slows global climate progress. Yielding too much by indiscriminately sharing technology or critical inputs, however, could dampen China's long-term dominance in solar, batteries, and EVs—industries that have become critical to China's economic health.

Balancing these pressures—commercial growth, strategic control, and geopolitical positioning—will affect not only the future of China's clean energy industries, but also global supply chains, geopolitical alignments, and the pace of climate progress.

Outlook for 2026

In 2026, China's clean energy companies are likely to adopt a dual-track strategy: ramping up exports to countries where trade barriers are low—mostly developing economies—while investing in local manufacturing and upstream supply chains where incentives encourage it or restrictions require it. As policy frameworks evolve, firms may pursue innovative structures, such as regional hubs, joint ventures, and licensing deals.

In the Global South, Chinese companies will channel greater exports to lower-income economies that maintain positive ties with China or to areas where Beijing promotes them for geostrategic reasons, such as the Middle East. Where trade restrictions arise, firms will increasingly pivot toward local manufacturing investments—especially in emerging markets where host governments offer incentives, such as through adjustments to Indonesia's domestic content requirements and Brazil's tax waivers for companies that establish production bases.[9] Local public sentiment toward firms' value creation and environmental performance, as well as formal government policy will shape how Chinese companies adapt their practices to secure market access.

As tariffs and trade barriers in the United States, the European Union (EU), and other aligned markets grow stiffer, the Global South will become even more important to China's geostrategic and commercial interests. Nevertheless, higher profit margins in the United States and the EU especially will motivate Beijing to keep pushing for market access in these regions without compromising China's technological dominance.

In the United States, regulatory difficulties and the Trump administration's antipathy toward clean energy may make Chinese companies hesitant to invest without consistent political endorsement from Washington. By contrast, Europe may remain a more predictable destination as policy support for clean energy persists, though challenges will still dominate, especially if the EU's desire for industrial sovereignty clashes with China's willingness to provide clear and consistent access to material and technological inputs. However, there may be a constructive path forward if the EU imposes consistent and achievable requirements with respect to technology transfer, job creation, and ownership stakes for investments, and China agrees to meet them.

As trade barriers elsewhere grow stiffer, the Global South will become even more important to China's geostrategic and commercial interests.

Meanwhile, Beijing will amplify climate leadership rhetoric touting the benefits of China's dominance in clean energy industries as a global public good, especially as China's existing domestic emissions targets face headwinds and its updated Paris Agreement targets underwhelm.[10] This rhetorical push will be more symbolic than substantive by capturing what China is already doing. Senior leadership may be unlikely to promote a more collaborative vision of global green tech leadership unless the political and economic benefits for China are clear.

Finally, the Trump administration's coercive measures to prevent other countries from deepening economic dependence on China, especially in strategic sectors, may force nations to thread the needle between Washington's fossil fuel push and engagement with China.[11] Some countries may leverage Chinese cleantech partnerships to "de-risk" from needing to ramp up their U.S. fossil fuel imports—a situation that could shape the direction of global energy politics.

Conditions and Contingencies

This forecast assumes that China can sustain its multipronged strategy—prioritizing the Global

South, selectively targeting higher-end markets, and leveraging rhetoric to project climate leadership—provided several enabling conditions hold:

- **Global deployment accelerates.** Clean energy adoption expands globally, supported by investments in clean power projects by China and other actors. However, unless China provides additional investment incentives in developing countries or facilitates meaningful debt relief, deployment could remain limited to high- and middle-income economies or to a localized, distributed scale.
- **Chinese firms maintain cost competitiveness.** China's domestic industry consolidation does not erode price advantages, and Global South energy choices remain primarily driven by cost competitiveness rather than geopolitical considerations. Their demand for clean energy continues to grow.
- **Beijing remains committed to overseas expansion.** China's leadership continues to support international expansion of China's cleantech companies and leveraging them for diplomatic gains.
- **U.S. policy remains unpredictable and coercive.** U.S. policy stays focused on securing long-term deals for the export of American fossil fuels, coupled with fierce pushback against clean energy in multilateral and bilateral spaces.
- **No major technological breakthroughs.** Other countries do not achieve major technological advances that threaten China's market dominance in solar, batteries, and EVs.

What to Watch

Several indicators in 2026 will signal whether the forecast is on track:

- **High-level political statements** from Beijing emphasizing how Chinese clean energy benefits other countries' development, or issuing guidance for cooperative engagements, would signal Beijing's drive to secure host country endorsement.
- **A de-escalation of China's export controls** on key material inputs would also signal a more pragmatic posture from Beijing.
- **Greater emphasis by Chinese cleantech entrepreneurs** on climate and development benefits—specifically in the context of international investments and market access—would suggest adaptation to foreign sensitivities.
- China may also attempt to **set norms in multilateral platforms** where it has influence, such as leveraging BRICS and the Shanghai Cooperation Organization to advance standards for clean energy projects.

Tracking these signals will clarify whether China prioritizes pragmatic growth and green soft power or doubles down on strategic control.

Alternative Scenarios

- **Baseline (most likely):** China expands its cleantech presence across the Global South, especially in markets with minimal barriers, while negotiating with developed economies to secure terms for investments that it deems favorable. Beijing emphasizes protecting its technological advantages over benefit sharing, resulting in persistence of the status quo.
- **Alternative 1:** An alternative scenario would see China recognizing the soft power benefits of the global expansion of its cleantech companies. Officials would outline clear pathways for companies to create value locally across developed and developing economies alike—such as through technology transfer, worker trainings, and joint ventures—as part of an active, collaborative vision for how Chinese investments will enhance other countries' economic and social development.
- **Alternative 2 (least likely):** A third scenario, though unlikely, is technically feasible. In this case, barriers to global cleantech trade become so pervasive and counter to countries' economic interests that mass pushback shifts policy toward a more cooperative approach—one that prioritizes free trade in green goods and greater international cooperation. Countries would recognize the public benefits of China's low-cost clean energy and open their markets to these imports to accelerate their deployment and reduce emissions. China would correspondingly limit its coercive practices toward material and technological inputs where it dominates the market, and would take substantive steps to address unfair subsidies and domestic overcapacity.

Strategic Implications

Domestically, Chinese cleantech companies will face increased pressure from the central government to abide by its vision for protecting China's interests as those companies engage abroad, including where and how they should share their technology with international players. Intense competition within China will also lead to further domestic consolidation of the sector. Companies that align with the government's vision while catering to the demands of overseas markets—for example, by devising innovative ownership structures to accord with host country requirements—will come out in the lead.

The outcomes for U.S.-China relations may depend on whether U.S. policymakers recognize that, with strategic safeguards and risk mitigation, Chinese participation in clean energy supply chains can enhance American interests, as well as whether the Trump administration backs off from its hostility toward clean energy. Chinese firms' urgency to access the U.S. market and willingness to transfer technology will also play a role. Chinese investments gaining a clearer pathway for U.S. market access could benefit the U.S. domestic clean energy transition, which may otherwise continue to suffer under the Trump administration's aggressive anti–clean energy policies and lack of access to China's technologies. It would also enhance the bilateral relationship by providing a win-win and greater incentive for sustaining constructive economic ties. Should the two countries fail to reach a compromise, however, China may double down even more intensively on its Global

South orientation, thus accelerating the bifurcation of the global green economy.

In other economies and especially the Global South, the degree of China's cooperation and host countries' assertion of their agency will shape the extent to which China can continue promoting its vision of global multipolarity. It will also pose major implications for the speed and scale of the global energy transition and climate progress. Should deployment of China's cleantech enable regions to decouple from dependence on imported hydrocarbons, for instance, it will further curb U.S. influence and the Trump administration's economic leverage.

Policy Shaping and Conclusion

China's clean energy expansion is entering a decisive phase in which commercial necessity and strategic calculation increasingly collide. Whether China's clean energy dominance can supercharge its green soft power will hinge largely on Beijing's willingness and ability to cater to host country interests. To enhance China's credibility as a genuine climate leader, the central government will need to balance political, security, and economic considerations while shaping a more constructive pathway for its clean technology companies to contribute to other countries' development.

Beijing's ability to balance openness with strategic control will shape the broader trajectory of global decarbonization.

Several other sets of actors may influence Beijing's calculus as well. China's clean energy companies could prompt the government to adopt a more open stance toward local value creation, including through technology transfer and joint ventures. Host country governments—especially in the Global South, where China seeks to deepen its influence—could establish clear investment criteria to ensure that Chinese participation supports local economic and social priorities. Likewise, multilateral actors and civil society can advance frameworks and campaigns that encourage Chinese investments to uphold high social and environmental standards.

As domestic competition compels firms to expand abroad, Beijing's ability to balance openness with strategic control will shape the broader trajectory of global decarbonization. How China manages these tensions—between profit and partnership, dominance and credibility—will determine whether its clean energy leadership reinforces or undermines its green soft power.

Endnotes

1 Manishi Raychaudhuri, "China's Fight Against Price Wars Is an Uphill Battle," Reuters, August 12, 2025, https://www.reuters.com/markets/asia/chinas-fight-against-price-wars-is-an-uphill-battle-2025-08-12/.

2 "Unleashing American Energy," The White House, January 20, 2025, https://www.whitehouse.gov/presidential-actions/2025/01/unleashing-american-energy/; "The U.S.-China Trade Relationship," Council on Foreign Relations, April 14, 2025, https://www.cfr.org/backgrounder/contentious-us-china-trade-relationship.

3 Shannon Osaka and Naema Ahmed, "How the U.S. Lost Its Lead in Electric Vehicles and Other Clean Energy Inventions," *The Washington Post*, July 31, 2025, https://www.washingtonpost.com/climate-environment/2025/07/31/china-clean-energy-united-states-inventions/; Andrew Hayley, "Explainer: China's Dominance in Wind Turbine Manufacturing," Reuters, April 10, 2024, https://www.reuters.com/business/energy/chinas-dominance-wind-turbine-manufacturing-2024-04-10/.

4 "China Contributes over 40% of World's New Energy Patents: Official," CGTN, August 26, 2025, https://news.cgtn.com/news/2025-08-26/China-contributes-over-40-of-world-s-new-energy-patents-official-1G9bdOfg5kA/p.html; Lauri Myllyvirta, "Analysis: China's Clean-Energy Exports in 2024 Alone Will Cut Overseas CO2 by 1%," Carbon Brief, July 22, 2025, https://www.carbonbrief.org/analysis-chinas-clean-energy-exports-in-2024-alone-will-cut-overseas-co2-by-1/.

5 "Economic Watch: China's Private Firms Ride Tech Wave," Xinhua News Service, February 21, 2025, https://english.news.cn/20250221/a8562cffe82e4ad3a9eaaf5726fbabeb/c.html.

6 "China Floods the World with Cheap Exports After Trump's Tariffs," Bloomberg, September 22, 2025, https://www.bloomberg.com/news/features/2025-09-22/china-floods-world-with-record-amount-of-cheap-goods-after-trump-s-tariffs; Alessandro Parodi and Victoria Waldersee, "China Floods Brazil with Cheap EVs Triggering Backlash," Reuters, June 20, 2025, https://www.reuters.com/business/finance/china-floods-brazil-with-cheap-evs-triggering-backlash-2025-06-19/; "Turkey Imposes 40% Tariff on Vehicle Imports from China," Reuters, June 8, 2024, https://www.reuters.com/business/autos-transportation/turkey-impose-40-additional-tariff-vehicle-imports-china-2024-06-08/; "China Investigates Mexican Tariffs on Imports from Asia as Trade Tensions Escalate," Associated Press, September 26, 2025, https://apnews.com/article/china-mexico-tariff-pecan-investigation-58d4ec1c2d583dd7117c6afccaf22683.

7 Fan Chen, "Chinese Firms Race to Open US Factories to Avoid Sky-High Tariffs," South China Morning Post, April 27, 2025, https://www.scmp.com/economy/china-economy/article/3307943/chinese-firms-race-open-us-factories-avoid-sky-high-tariffs.

8 Xiaofei Xu, "How Hungary Became China's New Factory Hub in the Heart of Europe," South China Morning Post, June 10, 2025, https://www.scmp.com/economy/china-economy/article/3313686/how-hungary-became-chinas-new-factory-hub-heart-europe.

9 "Indonesia Relaxes Local Content Rules to Energise Green Energy Investment," Hogan Lovells, August 21, 2024, https://www.hoganlovells.com/en/publications/indonesia-relaxes-local-content-rules-to-energise-green-energy-investment; Vinicius Nunes and Giulia Lopes, "Did You Spot a New EV in Brazil? It's Probably Chinese," Bloomberg NEF, November 19, 2024, https://about.bnef.com/insights/clean-transport/did-you-spot-a-new-ev-in-brazil-its-probably-chinese/.

10 Lauri Myllyvirta, "Will China Fulfil Its Key Climate Pledge?," Dialogue Earth, April 24, 2025, https://dialogue.earth/en/climate/will-china-fulfil-its-key-climate-pledge/; Kate Logan and Li Shuo, "Unpacking China's New Headline Climate Targets," Asia Society Policy Institute, September 24, 2025, https://asiasociety.org/policy-institute/unpacking-chinas-new-headline-climate-targets.

11 Neil Shearing, "Trump's Economic Rivalry with China Is Forcing Countries to Pick a Side," Chatham House, September 17, 2025, https://www.chathamhouse.org/publications/the-world-today/2025-09/trumps-economic-rivalry-china-forcing-countries-pick-side.

For more content from the Asia Society Policy Institute's Center for China Analysis

visit **AsiaSociety.org/ChinaAnalysis**

ASIA SOCIETY POLICY INSTITUTE / Center for China Analysis