



CHINESE FOREIGN POLICY IN 2026: EXPLOITING THE 'AMERICA CRISIS'

Thomas Eder

EXECUTIVE SUMMARY

China's leadership is confident about US decline accelerating—domestic political crises, fraying alliances, overstretch—but China's own economic woes may worsen as well.

Beijing's willingness to exploit the "America crisis" will be indicated by the intensity of military and coast guard action in the region and economic measures against the US.

The most likely scenario remains continuity, with gradually escalating pressure in the region, further trade war rounds, and fragile agreements with the US.

KEYWORDS:

Chinese foreign policy, economic coercion, Taiwan Strait

ZUSAMMENFASSUNG

Chinas Führung ist überzeugt, dass sich der Niedergang der USA beschleunigt – durch innenpolitische Krisen, bröckelnde Bündnisse und Überdehnung. Gleichzeitig könnten sich Chinas eigene wirtschaftliche Probleme verschärfen.

Pekings Bereitschaft, die „Amerika-Krise“ auszunutzen, wird sich an der Intensität der Einsätze von Militär und Küstenwache in der Region sowie an wirtschaftlichen Maßnahmen gegen die USA zeigen.

Das wahrscheinlichste Szenario bleibt Kontinuität im Sinne eines schrittweise steigenden chinesischen Drucks in der Region und weiterer Runden im Handelskrieg, gefolgt von brüchigen Abkommen mit den USA.

KEYWORDS:

Chinesische Außenpolitik, wirtschaftliche Zwangsmaßnahmen, Taiwanstraße

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STARTING POINT: CONFIDENCE VS. RESILIENCE

China's foreign policy in 2026 may be more forward-leaning, informed by a reinforced conviction that the West is in decline, as the US jettisons previous strengths (Council on Foreign Relations, 2025; Schneider & Ottinger, 2025). This perception—with its roots in the 2007/2008 financial crisis—had already been institutionalized through President Xi's pronouncements regarding the world undergoing “great changes unseen in a century” (Xinhua, 2018) and “the East is rising, the West is declining” (Xinhua, 2021). After observing the first year of the second Trump administration, Chinese experts wonder about the potential further damage to US institutional capacity and domestic political stability, as well as its



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unique network of alliances. Meanwhile, China's own economic and demographic woes may deepen, tempering overly escalatory action (Lavin, 2025; UBS, 2025). As a result, China will hit back hard against individual US trade war measures—having seen the US retreat

repeatedly vis-à-vis China in 2025—but otherwise seek pragmatic solutions.

SIGNALS: STABILITY VS. VOLATILITY

The Chinese leadership's confidence in US decline will be signaled most importantly by the intensity of military and coast guard activity in the region (Cho & Le Corre, 2025) and the make-up and use of its economic coercion toolbox targeting the US. China may conduct more frequent military exercises that are larger in size, more complex, involve partners, and involve areas closer to the shores of Japan, the Philippines, and the island of Taiwan. It may also board, inspect, and detain ships in disputed waters, engage in more frequent use of water cannons or ramming tactics, cut submarine cables, or quarantine small outlying islands administered from Taipei.

Overt deliveries of heavy weapons for Russia's war or strikes against the Republic of China (Taiwan) Armed Forces would provide the clearest signal of China's conviction of Western decline. On the economic side, China may escalate export control measures to other product categories, use demand shocks against US agricultural exporters, or move against US companies operating in the Chinese market. Full export bans on critical resources, such as rare earth elements, would be at the far end of the spectrum of what China could do if fully confident in Western decline. Meanwhile, key

signals of limited Chinese economic resilience will be regular official statistics and external studies showing slow growth, weak domestic demand (including a continuing property downturn), deflation, high unemployment, and a persistently low birth rate.

Signals pointing towards China's confidence in US decline have been rather stable. Beijing has gradually escalated military and coast guard action around the island of Taiwan and outlying islands controlled by Taipei, in the South China Sea, and close to Japan in joint patrols with Russia. After cautious responses to the second Trump administration's first tariff hikes, waiting for potential US-initiated talks, China hit back hard against the following US trade measures in 2025. It concluded that President Trump was more interested in a meeting with President Xi, more interested in a deal, and more willing to compromise, and it continued to gradually build out its export control system. Several interim deals on economic matters did not change that. As for China's economic resilience, the signals are less stable. Statistics and external studies for 2025 showed strength on exports, but many analysts expect renewed trouble for China's economy in 2026, as the property market crisis persists, local government debt constrains policy space, and trade imbalances may lead to pushback.

OUTLOOK AND IMPLICATIONS: THREE SCENARIOS

In the most likely scenario, China remains confident of gradual US decline while China's economy continues to lack resilience, leading to a steady continuation of China's foreign and security policy course. Beijing still aims to convince people on Taiwan through intimidation and promised benefits that opting for unification is in their interest.



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Further Chinese military exercises around the island follow statements by Republic of China (Taiwan) President Lai or US or allied leaders perceived as going against Beijing's red lines, as well as US arms sales to the Republic of China (Taiwan). (Further) tourist, fishing, or other vessels from Taiwan are boarded and perhaps detained, and (additional) submarine cables cut, to increase pressure. Trends in the South China Sea and around Japan also remain stable. After one or two further trade war rounds, China and the US again strike a fragile agreement (see also The Paper, 2025; Trivium China, 2025). China does not go further, as US deterrence on Taiwan remains relevant, economic resilience issues persist (slowing growth, dependence on exports), and escalation risks are deemed too high and unnecessary.

In a second scenario, China views the decline of the West as sudden and drastic and, whatever the exact trajectory of its own economic woes, chooses to escalate where it sees a window of opportunity. The Chinese leadership reaches such conclusions during a deep institutional crisis of NATO due to US economic coercion against European nations or even military action on Greenland, where European NATO members, for example, leave NATO's integrated military command, impose tariffs on, or use the EU's Anti-Coercion Instrument against the US and its companies. China concludes that the US can no longer rely on its allies as before, is overstretched due to operations in and around the Caribbean, Iran, and Greenland, and further preoccupied by internal problems, including escalating protests against US Immigration and Customs Enforcement (ICE) activities. Taking advantage of this perceived weakness, China militarily seizes outlying islands administered from Taipei, aiming to demonstrate

the inevitability of unification to the people on Taiwan. After China escalates export controls and again administers demand shocks, the US eventually backs down from initially adopted sanctions.

In a third (and less likely) alternative scenario, China remains confident in gradual US decline, but views its own economic woes as increasingly severe. It finds it much harder to convince internal and external audiences that its GDP growth rate is around 5%—and not considerably lower as some external analysts predict for 2026 (Rhodium Group, 2025). Policy support measures aimed at boosting domestic consumption prove insufficient and export numbers plummet, because of weak growth elsewhere, diversification/de-risking measures adopted by Western countries, and increasing wariness of trade deficits with China (including in developing economies) (see also García-Herrero, 2026). The Chinese leadership opts for some additional concessions in trade deals with the US, as well as focused rapprochement with Europe, seeking to incentivize foreign direct investment and open markets. On security matters, China prioritizes lowering tensions.

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