

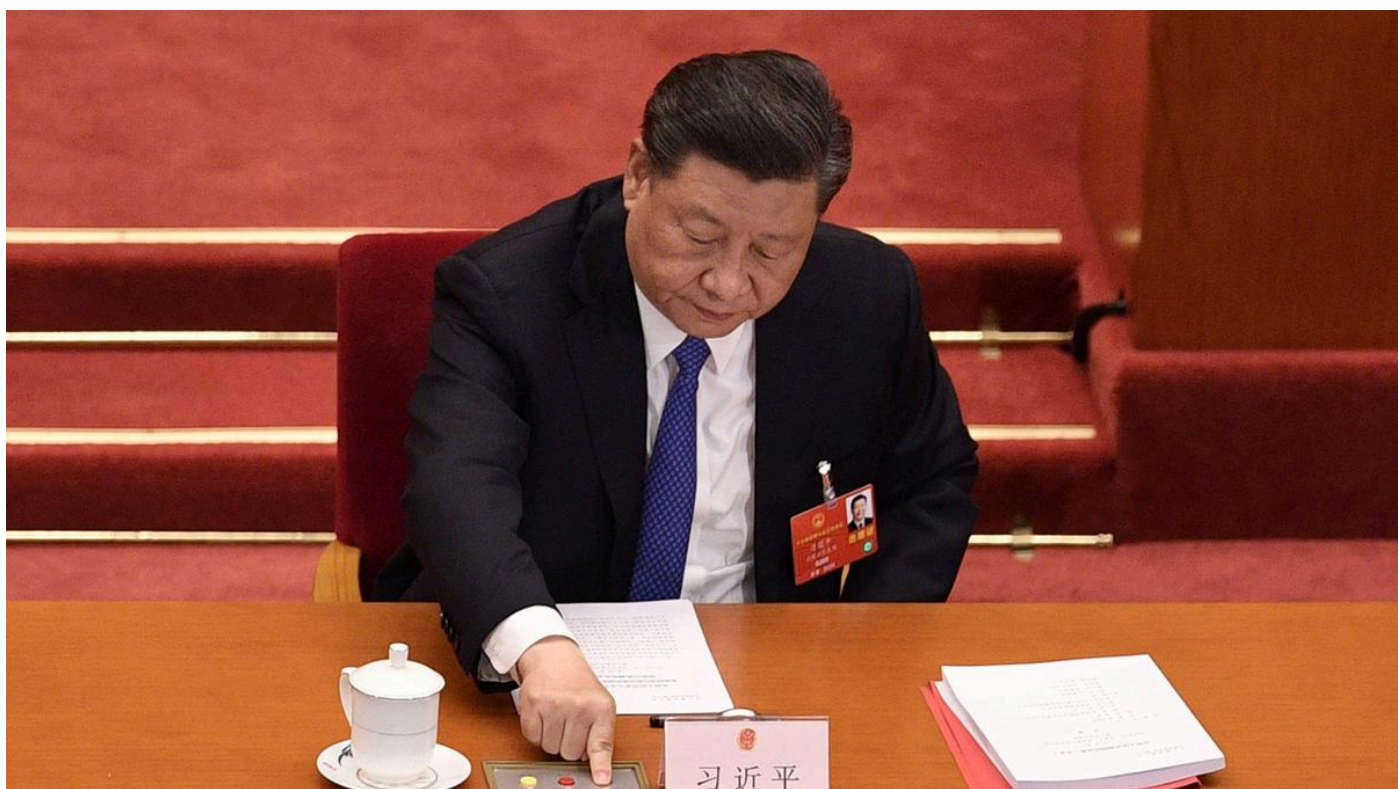
Hubris and caution — China's posture as 2026 begins

The Chinese leadership is aware of structural challenges at home and in a difficult international environment; India must be alert and strategically patient

Published – January 05, 2026 12:56 am IST



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'The shift in China's overall mood has been striking'. File | Photo Credit: AFP

As 2026 begins, **China** presents a paradox: a nation wrestling with economic challenges yet projecting strategic confidence; a leadership tightening political control domestically while expanding its diplomatic and institutional reach abroad; and a system that is both anxious and assertive. For India, this Chinese posture and the shift in the stance of the United States toward Beijing and New Delhi have narrowed strategic space and complicated the management of a fraught relationship. India's diminishing prominence in the foreign policy calculus of Washington and Beijing alike adds to the complexity.

The shift in China's overall mood has been striking. Until late 2024, Track 2 dialogues revealed palpable anxiety among Chinese interlocutors about U.S. containment and economic slowdown. By mid-2025, a sense of regained momentum — sometimes bordering on hubris — permeated Beijing's strategic community. Many believed China had gained ground in a recalibrated great power competition with the U.S., managed escalation dominance more effectively, and secured tactical advantages in trade and tariff disputes. This confidence was bolstered by China's expanding influence in the Global South, its deepening alignment with Russia, and its ability to stabilise key relationships — with the notable exception of Japan — without altering core positions.

Yet, beneath this confidence lies a leadership aware of structural challenges at home and a difficult international environment. The Fourth Plenum in October 2025 and the Central Economic Work Conference in December saw President Xi Jinping doubling down on national security, technological self-reliance, and the “real economy” as organising principles, while persisting with exports as a key growth driver even as he spoke of boosting domestic consumption.

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Economic strains and the turn inward

China's 2025 economic growth was weaker than official figures (about 5%) suggest. Domestic demand remained weak, and the overbuilt property sector continued to weigh on confidence. Deflationary pressures (producer prices in negative territory for 38 consecutive months), sluggish productivity and tepid corporate profits persisted. Local governments face fiscal stress, limiting stimulus options.

Instead of boosting consumption, Beijing reinforced a state-led model, prioritising advanced manufacturing, semiconductors, Artificial Intelligence (AI), green energy, and dual-use technologies. Massive industrial policy support aims for “whole-chain breakthroughs” and the 15th Five-Year Plan (2026-30) underscores technological self-reliance and supply chain insulation.

This inward turn occurs even as China's export dependence grows to compensate for weak domestic demand. China's trade surplus crossed \$1 trillion in the first 11 months of 2025. It is increasingly dominating global value chains in manufacturing across high-tech industries such as electric vehicles, batteries, solar panels and industrial machinery. This “China Shock 2.0” is generating serious disruptions for developed and developing

economies alike. As IMF Managing Director Kristalina Georgieva warned in December, China is now too large to export its way out of a slowdown without aggravating global trade tensions. For India, China's advantages in scale, technology and system-wide efficiency and upstream control of critical inputs (rare earths to battery precursors) have not only expanded the trade deficit, expected to exceed \$110 billion in 2025, but also intensified vulnerabilities in sectors ranging from pharmaceuticals to electronics, green energy and rare earth magnets.

Domestically, 2025 was marked by further political consolidation. The leadership tightened information control, reinforced ideological discipline, and expanded the remit of national security. Yet, dysfunctionalities of the party-state were also evident in large-scale sacking of generals.

The PLA continued to expand its conventional and nuclear capabilities. Emerging nuclear doctrinal shifts, such as movement toward an "early warning counter-strike" posture, suggest a more assertive and risk-tolerant military.

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The Great Power dynamics

The most consequential external development was the recalibration of U.S.-China relations under President Donald Trump's second term. Under the U.S. National Security Strategy 2025, China is no longer framed as a systemic rival but primarily as an economic competitor. The Indo-Pacific is no longer the strategic centre of gravity; the Western Hemisphere has taken precedence, reflecting a more inward-looking "America First" approach. However, America's military intervention regime change in Venezuela, which seriously affected Chinese interests and investments and elicited sharp reactions from Beijing, have shown that the U.S.-China strategic rivalry is intact.

The Trump-Xi meeting in Busan in October produced de-escalation, including modest tariff adjustments and a selective easing of export controls. These were transactional bargains, not steps toward a G2. Yet the perception of a "G2 overlay" — a shadow of tacit coordination — has serious consequences, as even limited China-U.S. accommodation can constrain the choices of other states.

For India, the implications are sobering. The long positive trajectory of the India-U.S. partnership has been disturbed by friction over trade, Russia, and Pakistan. The U.S. remains committed to preventing Chinese hegemony in Asia but is less inclined to

prioritise relations with India as a strategic counter to China. Meanwhile, China believes it has gained relative advantage vis-à-vis the U.S., while Chinese interlocutors increasingly argue that India's interest in stabilising relations with China stems from turbulence in India-U.S. ties. These twin perceptions make China less inclined to accommodate India's concerns.

With Europe, instead of leveraging trans-Atlantic tensions to drive a wedge between Brussels and Washington, China adopted a tough posture — digging in on EV subsidies, refusing to curb industrial overcapacity, pushing back hard against EU trade-defence actions, and consolidating its strategic linkages with Russia. Europe, despite growing alarm over China's "strategic enabling" of Russia's war in Ukraine and fears of industrial hollowing out, found itself constrained due to economic headwinds, dependencies on China, and strategic distractions.

China's attempts to stabilise major-power ties were undercut by its harsh response to the Japanese Prime Minister's comment on Taiwan. Beijing signalled that its outreach has clear limits and that it remains unwilling to accommodate divergence on issues it deems sensitive.

Mr. Xi is attaching strategic priority to the Global South, positioning China as its leader and as a stabilising partner amid western retrenchment, and stepping up BRI projects, diplomatic initiatives and influence operations. But this expanding presence has also stirred unease over opaque financing, debt vulnerabilities, environmental concerns, and political leverage Beijing can derive from economic dependence. Even as China deepened its influence in Southeast Asia, the Gulf, Africa, and Latin America and pushed a China-centric institutional architecture through the AIIB, NDB, and expanded BRICS and SCO, many countries remain cautious about loss of policy autonomy.

China continued to treat South Asia as its strategic periphery and pursue a "two-ocean strategy" that normalises PLA Navy operations in the Indian Ocean.

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On India–China relations

India-China relations in 2025 witnessed cautious stabilisation but no substantive progress on structural issues. The summit-level meeting in Tianjin and other high-level exchanges helped rebuild a damaged relationship. Yet, the situation along the borders remains stable but not normal. Disengagement has not been accompanied by de-

escalation or de-induction. “Buffer zones” continue to restrict India’s patrolling rights and grazing access. If these temporary arrangements become permanent, China will have achieved incremental gains consistent with its grey-zone playbook.

China’s tactical outreach has not addressed India’s core concerns. Negative signals included China-Pakistan battlefield collusion (Operation Sindoor), work on a massive hydropower project in Tibet near the border, denial of rare earth magnets, delays in clearing key components, and repeated efforts to flag territorial claims in Arunachal Pradesh. India has prudently opted for step-by-step improvement in ties.

China is likely to persist with its current strategy: managed competition with the U.S., stabilisation of major relationships along with hardball diplomacy, intensified outreach to the Global South, incremental assertiveness in maritime and border theatres, and prickliness on its “core interests”. The PLA will persist with grey-zone tactics while avoiding major kinetic actions.

New Delhi must pursue calibrated engagement to reduce immediate risks while strengthening asymmetric deterrence and accelerating domestic technological and industrial capabilities. External balancing remains relevant, but its dependability must be conservatively assessed in an era of U.S.-China tactical accommodation. India must prepare for a long haul — clear-eyed, resilient, and strategically patient.

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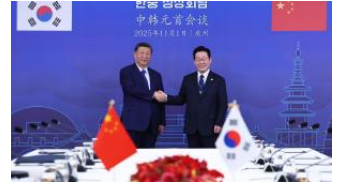
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