Perspectives

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China–US: 'strategic stability' put to the test by Chinese ambitions

- **The start of the 21st century has been marked by growing rivalry between a dominant power, the United States, and a new rival, China. Since 2016, this rivalry has manifested itself across an increasing number of sectors: trade, technology, finance, defence and energy. Each side is building or safeguarding its comparative advantages and dominant positions in order to maintain its attributes of power and curb its rival.**
- **Whilst China had underestimated the duration, intensity and unpredictability of US trade policy during Donald Trump's first term, it has shown that it was better prepared for his return. The year 2025 was thus marked by a more offensive stance from China, particularly following *Liberation Day* in April, when Beijing threatened to impose drastic controls on exports of rare earths and their use in global value chains.**
- **Following the one-year truce announced in Busan in October 2025, Xi Jinping's visit to Washington from 23 to 25 September this year provided an opportunity to take stock of the persistent disagreements and potential areas of progress. For both presidents, the focus is now on 'strategic stability', which they need both domestically and internationally. Donald Trump will face a Democrat Congress after his electoral defeat and an economy plagued by inflation, whilst Xi Jinping is preparing for the 2027 Communist Party Congress, at which he will seek a new term, against a backdrop of more challenging economic growth. Externally, the United States is already engaged in the Gulf and in Ukraine and cannot afford a further escalation in Asia.**
- **Strategic stability therefore does not rest on a resolved disagreement, but on the mutual recognition that neither Washington nor Beijing can, in the short term, impose its model on the other. China sees this as a respite to consolidate its industrial, financial and technological autonomy; the United States, as a means of containing escalation whilst preserving its levers of pressure.**

The trade truce does not resolve the deep-seated antagonisms

On the trade front, a sense of stabilisation…

Following the great uncertainty caused by *Liberation Day*, reciprocal tariffs have stabilised at around 30 per cent, though at a higher level than before Donald Trump's return to office.

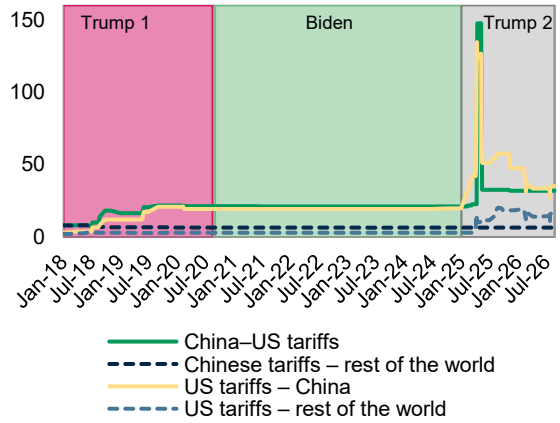
The meeting between Donald Trump and Xi Jinping in Washington extended the truce by three months and laid the groundwork for a 'Trade and Investment Council', tasked with negotiating tariffs on non-strategic goods. The two countries have committed to establishing a tariff regime covering $60 billion worth of non-sensitive exports – $30 billion per country – across various agricultural and manufacturing sectors. China is also reported to have agreed to increase its purchases of US coal to 10 million tonnes per year.

As regards strategic goods, ranging from soya to semiconductors, however, no progress is to be reported. Bilateral trade has, in fact, been following a misleading trend for over a year: whilst US imports continue to rise, China's share of these has fallen sharply, from over 20 per cent in 2020 to 8.1 per

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cent in August 2026. This trend, however, did not begin with the latest tariff measures; it started as early as 2018.

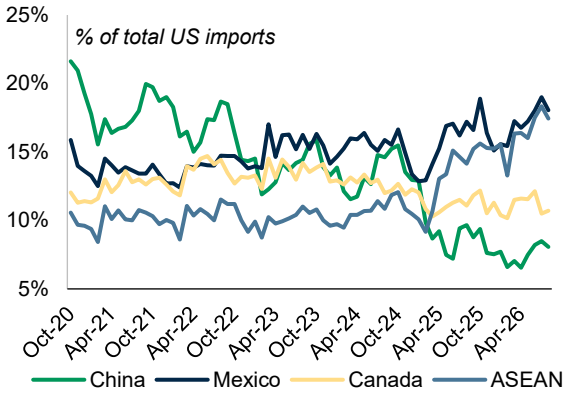
Customs duties are stabilising, but at a higher level



Sources: PIIE, Crédit Agricole S.A./ECO

Over the past eight years, China has taken steps to anticipate upheavals in global trade and protect itself from further US escalations or sanctions. It has internationalised its production processes by relocating the final stages – notably assembly – to third countries benefiting from more favourable tariffs or free trade agreements with the United States. The decline in US imports from China is therefore inextricably linked to the rise of these 'platform countries', such as Vietnam and Mexico.

Origin of US imports



Sources: US Customs, Crédit Agricole S.A./ECO

China's strategy is, for the time being, paying off. The authorities are aware that the United States is struggling to implement rules of origin capable of measuring the Chinese value added incorporated into products transiting through third countries, and that there is no alternative capable of supplying, on tariff terms comparable to those of China, the consumer goods on which US households depend.

… which does not resolve the deep-seated tensions

But this stabilisation does not resolve the deep-seated tensions. On the American side, the balance is a response to accelerating inflation and a partial failure of tariff policy, which has been largely overturned by the courts. On the Chinese side, maintaining export momentum remains a necessity.

The latest G20 Finance Ministers' meeting in Asheville highlighted the fragility of this compromise. China found itself isolated during negotiations over the communiqué, which called for action against 'non-market' policies and identified persistent surpluses and weak domestic demand as imbalances to be corrected. By refusing to sign it, the country found itself alone against the other nineteen G20 members: **a sign that its model is becoming increasingly difficult for the rest of the world to accommodate.**

Faced with accusations of industrial overcapacity, levelled by both developed and emerging economies, **China has hardened its defence**. Its authorities and regime-linked *think tanks* present this overcapacity as the result of comparative advantages built up in numerous sectors – comparable to those of France in the luxury goods sector or the United States in the aerospace industry – and a lack of competitiveness in the rest of the world. However, this rhetoric overlooks the resources deployed to achieve this ambition and the imbalances it creates. The OECD estimates that public support accounts for 60 per cent of the increase in China's market share since 2005, whilst the IMF estimates industrial policy expenditure at 4 per cent of GDP per year.

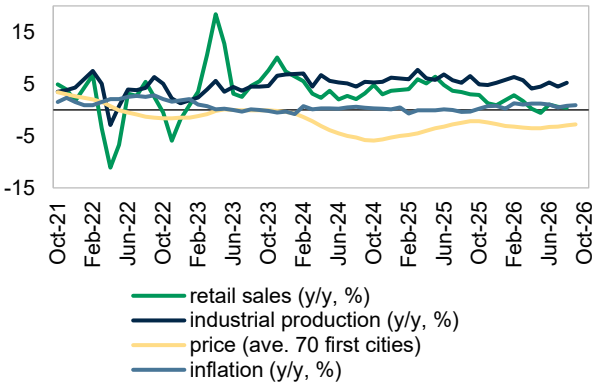
The rules of the GATT[1] and subsequently the WTO were based on the Ricardian theory of comparative: comparative advantages were supposed to shift, and countries were expected to abandon certain sectors as they moved up the value chain. China has not followed this pattern. Only certain textile activities have been relocated to South Asia, notably to India, Pakistan and Bangladesh. The apparent restructuring of value chains, as reflected in trade statistics, is therefore largely an illusion. With the exception of high-profile cases such as Apple – which, moreover, has retained a large proportion of its production in China – few companies have actually left the country. They

[1] *General Agreement on Tariffs and Trade* (GATT): a legal and financial framework established at international level in the wake of the Second World War, spearheaded by the United States (1947), which remained in place until the creation of the WTO in 1995

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have mainly relocated assembly operations, thereby circumventing US customs duties.

China: growing divergence between supply and demand



Sources: NBS, Crédit Agricole S.A./ECO

Chinese indicators thus point to a growing divergence between supply and demand. In September, year-on-year, industrial production rose by 5.5 per cent, retail sales by 1.1 per cent and exports by 36.3 per cent. Despite the official rhetoric on rebalancing, no concrete measures to support consumption have been announced. On the contrary, the15thFive-Year Plan outlines an increasingly industrial model, underpinned by network infrastructure (electricity, communications, logistics, computing), robotics and artificial intelligence.

The battle for AI has only just begun

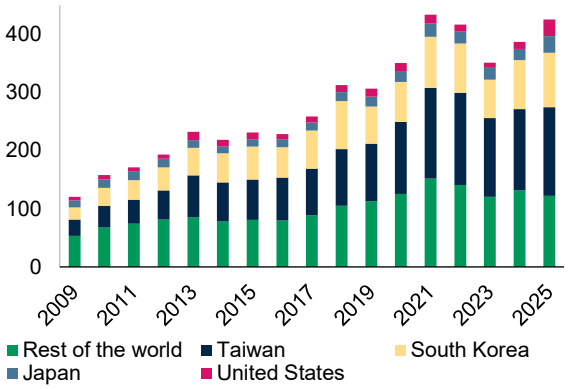
China, the US's technological challenger

The second topic of the negotiations concerns artificial intelligence and the underlying technological framework. The United States and China have agreed to establish a dialogue on AI, including a communication channel in the event of an incident, modelled on the Cold War 'red telephone'. Its implementation will be complex, as the two countries are developing this technology according to very different approaches.

In China, AI is a general-purpose, dual-use technology: a driver of productivity and industrial upgrading; an instrument of digital sovereignty; a component of military competition; and a tool for modernising governance, healthcare, transport, education and security. **This strategy**, set out in the 2017 *New Generation Artificial Intelligence Development Plan*, **aimed to make China the world's leading centre for AI innovation by 2030**. It now lies at the heart of the15thFive-Year Plan, alongside robotics and innovative medicines.

These ambitions are coming up against US power, which, as early as 2018, laid the legal foundations for controlling emerging technologies and has used them against China. For over a decade, integrated circuits have been China's largest import category, and the country still lags behind South Korea and Taiwan in technological terms.

China: imports of integrated circuits



Sources: TradeMap, Crédit Agricole S.A./ECO

Thanks to a comprehensive framework[2] , the United States maintains a comfortable lead in private funding, access to cutting-edge *Graphical Processing Units* (GPUs), cloud computing and fundraising by laboratories developing state-of-the-art models. **However**, **the performance gap between Chinese models – particularly for generative AI models – has narrowed significantly, to the point of approaching parity on certain indicators**. China's strength lies less in its ability to match US venture capital than in the combination of a vast, digitised domestic market; rapid deployment across industry and services; coordination between the state, banks, local authorities and major corporations; a pool of talent; and a strong e drive to replace foreign technologies subject to sanctions.

Its vulnerability remains in the field of advanced computing. US restrictions on chips and equipment complicate access to the best accelerators and may make the training of the most expensive models more expensive or slower. China is responding by simultaneously funding applications, computing, data and the hardware supply chain, as part of a comprehensive ecosystem approach.

This model is made possible by **a planned economy**: the five-year plan sets the priorities; the provinces provide land, subsidies, public venture capital and computing capacity; universities drive research; whilst Huawei, Alibaba, Tencent, Baidu

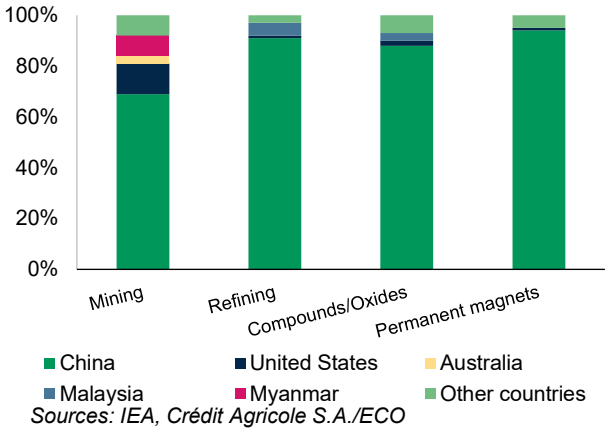
[2] A legal framework for controlling exports, re-exports and international transfers; US-origin software and technologies; products manufactured abroad where they rely on US technologies or equipment (extraterritoriality of US law); and, finally, US investments.

and ByteDance roll out services and promote Chinese standards, both at home and abroad.

Rare earths and minerals: China's stranglehold

Faced with a US superpower seeking to slow its rise and resorting to extraterritorial measures, **China has gradually adopted a strategy of turning its assets into strategic reserves, starting with its control over the rare-earth value chain**. After a period of wait-and-see in the face of the unexpected measures taken during Trump's first term, the country anticipated his return and approached the subsequent negotiations with far greater preparation.

Rare earths: Chinese dominance



Sources: IEA, Crédit Agricole S.A./ECO

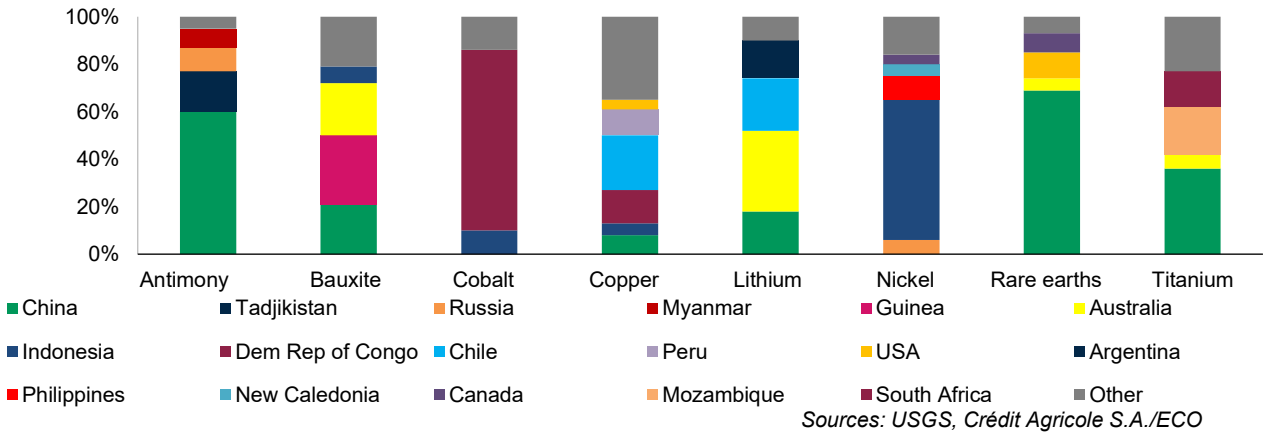
China does not merely dominate mining; above all, it controls the stages that are most difficult to replicate (separation, refining, alloying and the manufacture of permanent magnets). This position is underpinned by **a long-term strategy encompassing public investment, sector consolidation, production quotas, low energy costs, logistical infrastructure, the accumulation of know-how and a historical tolerance for environmental costs.** Beijing has also developed technologies for the separation and manufacture of magnets – the main bottlenecks in the supply chain – whilst the Silk Roads have helped secure access to certain ores not available within its own territory.

It is this control over the value chain, combined with ownership of the deposits[3], **that gives China its strategic leverage**. Unlike gold, copper or oil, rare earths are not traded on centralised markets such as the *London Metal Exchange* (LME), but through direct contracts between producers and manufacturers. Thanks to its monopoly power, China can therefore influence both prices and volumes – a power it did not hesitate to wield following *Liberation Day*.

In April 2025, China introduced licensing requirements for the export of several rare earths and associated products, notably dysprosium, terbium, samarium, gadolinium, lutetium, scandium and yttrium. The controls were extended in October to include other elements. These measures did not necessarily constitute a blanket embargo: they allowed for the selective targeting of exports, the slowing down of deliveries, the requirement for information on the end-user and intended use, and even the denial of access to certain sensitive customers. Above all, they introduced the first regulations on dual-use goods and laid the groundwork for a form of extraterritoriality regarding rare earths. **In response to the tariffs, China thus reiterated that it possessed leverage that was difficult to replace in the short term and essential to the US military-industrial complex, even though China had begun to weaponise its stranglehold on rare earths before the US tariffs were imposed**.

In response, the United States is attempting to rebuild a complete value chain outside China (mining, separation, refining, alloys, magnets and

Rare earths, minerals: Chinese dominance



Sources: USGS, Crédit Agricole S.A./ECO

[3] Over 50 per cent of global production comes from a single Chinese mine at Bayan Obo

recycling) by transforming a risky activity into a captive market. It is relying on guaranteed public procurement for defence, price floors and strategic reserves, as well as significant mining assets and long-established expertise[4]. The government is also fast-tracking mining and environmental permits, whilst new rules are set to restrict the use of Chinese-sourced materials in certain magnets from 2027 onwards[5]. Finally, Washington is developing mining diplomacy with Australia, Japan, South Korea, Canada, the European Union and South-East Asia to coordinate funding and projects.

The truce negotiated in Busan in October 2025, and subsequently extended in Washington until January 2027, therefore resolves neither the deep-seated disagreements nor the race for technologies of the Fourth Industrial Revolution. In this race, a common question arises that of its funding.

Funding the model: China gears up

A shared problem: debt

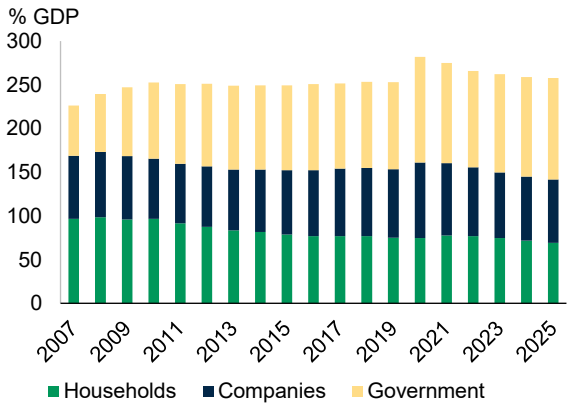
Whilst US public debt, which exceeded 40,000 billion dollars this summer, is causing concern in the markets, China too is facing excessive debt. Central government debt has risen sharply, from 60 per cent to nearly 100 per cent of GDP between 2019 and 2025, but the main problem remains that of enterprises, particularly state-owned enterprises (SOEs). This weakness stems from a deliberate choice: **to place the burden of financing growth on businesses rather than on the state**. Since 1994, local authorities have been shouldering significant expenditure – **on** education, health, infrastructure and public services – whilst having limited direct revenue. They have been funded by central government transfers, but also by *local government financing vehicles* (LGFVs), which are legally separate entities but controlled by local authorities. This arrangement made it possible to maintain the appearance of sound public finances, to finance growth without fully drawing on the central budget, and to retain a lever of political control through emission quotas and the selection of projects.

However, it led to a misallocation of capital. Local management favoured state-owned enterprises, which borrowed at lower costs than their fundamentals warranted and received more credit than a market-based system would have allowed. China has thus become exposed to a political cycle of investment: a surge in lending towards the end of a local administration's term, followed by a slowdown at the start of the next cycle, with the authorities – rather than the electorate – rewarding or penalising leaders. SOEs have benefited from implicit state guarantees and absorbed growing debt without significant pressure to be profitable. Credit thus functioned as a subsidy, delaying restructuring and bankruptcies, and fueling part of the industrial overcapacity.

Despite a centralized state, the use of LGFVs has made the debt more opaque. Since 2023, the major state-owned banks have been asked to extend loans, reschedule repayments and reduce interest rates. This policy is accompanied by a wide-ranging restructuring aimed at refinancing the 'hidden debt' through more transparent and less costly government bonds.

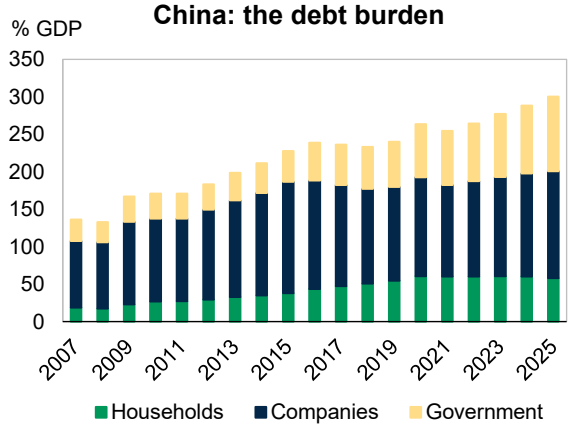
Compared with the United States, however, China retains the advantage of the long term. State intervention in capital allocation and a preference for state-owned enterprises allow it to partially free itself from profitability constraints, particularly in sectors where a return on investment may take longer to materialise. The financing of AI illustrates this contrast: a decentralised, competitive and largely privatised US ecosystem is countered by a Chinese state prepared to take the long-term

USA: the debt burden



Sources: BIS, Crédit Agricole S.A./ECO

China: the debt burden



Sources: BIS, Crédit Agricole S.A./ECO

[4] It was the United States, in collaboration with Japan, that first developed permanent magnets using rare-earth elements,

[5] However, this commitment will be very difficult to honour in the absence of any alternative to China at present

view, provided that local authorities can perpetually refinance projects whose returns remain below the cost of capital.

Since the pandemic, **however, the Chinese state has accepted a more direct form of debt and embarked on an overhaul of its financial system in order to equip all stakeholders involved in financing strategic sectors.**

The financial system: the driving force behind the five-year plan

The issue of debt is intrinsically linked to that of the financial system, in which national public institutions play a major role. However, **the property crisis has weakened this system**: it has reduced local authorities' resources and put pressure on regional banks exposed to household property loans, where the value of collateral has fallen. The latest measures therefore aim to strengthen public financial institutions at an early stage, so that they can absorb the latent losses linked to the property sector, local government financing vehicles (LGFVs) and the credit crunch, whilst continuing to finance growth.

In September 2026, the Ministry of Finance announced a programme worth 360 billion yuan – approximately 54 billion dollars – intended for eight central financial institutions: three public banks or lenders and five insurers. It will be funded primarily by 300 billion yuan in special sovereign bonds, following the injection of 500 billion yuan into four major banks in 2025 and the announcement, in March 2026, of new issues of special bonds for major state-owned lenders.

This recapitalisation is intended to lower the cost of capital, extend the funding horizon and increase the tolerance for initial losses among strategic enterprises, both in their domestic and international operations. For the banks, the aim is to **restore capital buffers at a time when their margins are under pressure and their balance sheets contain growing exposure to property loans, local government financing vehicles (LGFVs), local government bonds and low-yield infrastructure projects.** Strengthening Tier 1 capital should enable them to support lending without compromising their prudential ratios. It also serves as a form of pre-capitalisation designed to avoid emergency recapitalisation, which is more costly and destabilising.

The inclusion of insurers is a new development. **Their recapitalisation aims to strengthen their solvency against a backdrop of low interest rates and yields, to provide them with the means to invest more in Chinese equities using medium- and long-term funds,** and to position them as key players in the sector's consolidation. Insurers are thus expected to become a source of patient capital, capable of channelling private savings towards the real economy and industrial priorities.

The model remains fundamentally state-led: the Ministry of Finance and major public institutions provide the capital, banks channel credit, insurers make long-term investments, and defaults are avoided through refinancing. The strategy consists of preparing the system to bear the cost of deleveraging in the property and local government sectors, rather than allowing the situation to correct itself through bankruptcies or a sharp contraction in credit. Its effectiveness will, however, depend on improving the returns on new investments: recapitalising the banks does not resolve either the weakness in private demand or the decline in returns from the model based on property and infrastructure.

From a financial perspective, China is therefore securing its independence by funding its industrial ambitions within a domestic framework whose rules it controls. The question now is how this system will be projected onto the rest of the world, particularly through the role assigned to the yuan. The Sino-American confrontation is also a clash of models, which calls into question each side's ability to define a new world order and to finance it.

New world order: which model will gain acceptance?

Dollar versus yuan

The extraterritorial reach of the dollar and its central role in international sanctions have convinced China to build an independent financial architecture. The precedents set by Iran and, subsequently, Russia have reinforced this trajectory, which has been accelerated by the 15th Five-Year Plan.

China's strategy is not to abruptly replace the dollar, but to **gradually build an alternative infrastructure and increase the use of the yuan in trade, payments, financing and reserves**. It rests on four pillars: payments, offshore liquidity, capital markets and anchoring in real trade and commodity flows.

In terms of payments, the *China International Payments System* (CIPS) enables cross-border transactions in yuan to be cleared and settled without systematically relying on US correspondent banks, thereby reducing dependence on SWIFT. Currency *swaps* and clearing banks facilitate access to the yuan for central banks and foreign companies. 'Panda' and 'dim sum' bonds make it an

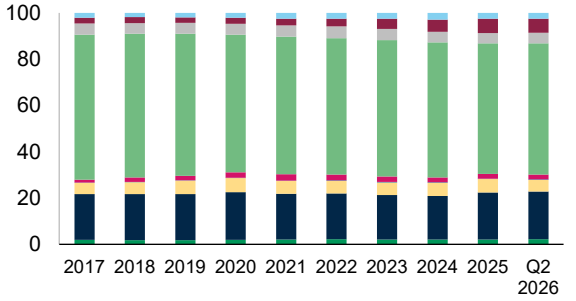
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investment and reserve asset, whilst trade and energy settlements in yuan anchor it to real flows.

The internationalisation of the yuan is primarily designed for Chinese companies: to finance an international project in yuan, to sell products or services in this currency, to hedge against exchange rate risk, to retain *offshore* revenues and to reinvest them in infrastructure under Chinese jurisdiction. **The aim is to reduce the systematic conversion into dollars and, consequently, exposure to US sanctions**.

However, the yuan's share of trade and, above all, of reserves, remains far below China's weight in the global economy. The obstacles are not technological, but institutional and financial: Beijing wants to internationalise its currency without relinquishing control over capital, foreign exchange management and domestic stability.

Yuan: a marginal share of foreign exchange reserves



Sources: IMF, Crédit Agricole S.A./ECO

From the US perspective, exchange rate management remains the central issue. The Treasury keeps China on its watch list and regularly accuses it of undervaluing its currency to bolster its exports – an accusation also shared by the European Union. Beijing sees this primarily as a means of exerting trade pressure and as a justification for certain coercive measures. China maintains that it has neither the need nor the intention to devalue the yuan and that it intervenes only to smooth out volatility, whilst pointing out to the United States its privilege as the issuer of a reserve currency, which allegedly allows it to run deficits to fuel excessive consumption.

The issue of the yuan's exchange rate and its management therefore inevitably brings the question of foreign trade back to the fore.

Global trade: who still plays by the rules?

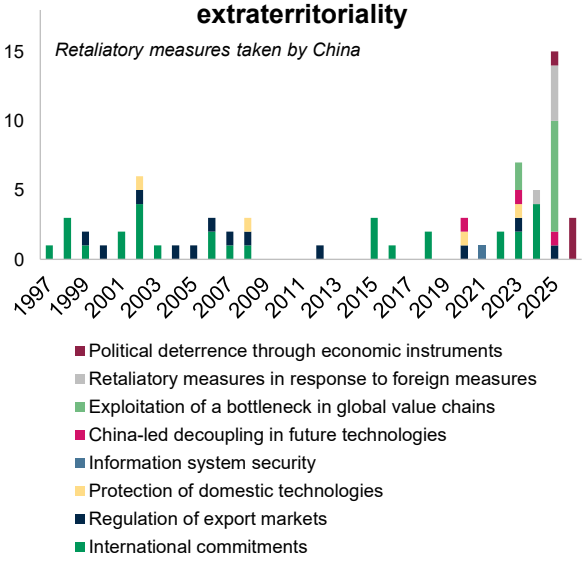
China is facing growth hampered by weak domestic demand and the misallocation of capital. Against this backdrop, net exports remain the only source of growth that does not increase the debt burden, hence the constant pressure on the export-led model. It is therefore not surprising that Beijing presents itself as the defender of multilateralism, the most-favoured-nation clause and dispute settlement, in the face of a United States that is flouting WTO rules.

China promotes a form of globalisation that is 'open, inclusive, universally beneficial and development-centred', as opposed to US unilateralism based on force, tariffs and institutional obstruction. However, **its vision is not liberal globalisation in the Western sense**: it combines trade openness, a strong state role, the integration of emerging markets and the development of value chains linked to China, notably through the New Silk Ro , regional agreements and yuan-denominated financing. It is this model that it intends to promote to the emerging world, particularly within the BRICS.

The aim is to position China as the guarantor of a reformed multilateral trading order, whilst preserving the instruments that support its strategic industries. The debate with the United States therefore centres less on globalisation itself than on what defines its rules, who arbitrates disputes and which economic models can coexist within the global trading system.

Since 2018, China has hardened its stance in the face of a more aggressive United States. It has resorted to retaliation and exploited the leverage it holds within global value chains, starting with rare earths. It is, however, walking a tightrope: its accession to the WTO was the first step in its economic rise, and it still needs open globalisation to sustain an increasingly contested growth model.

China's response to US extraterritoriality



Sources: European Chamber of Commerce in China, Crédit Agricole S.A./ECO

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It is seeking to win over emerging economies by proposing a form of globalisation that is more inclusive, less politically conditional and more focused on development than the Western liberal order. Its argument is simple: it offers financing, infrastructure, market access and equal partnership status, without imposing the governance or institutional reform requirements often associated with Western donors.

This offer meets real needs, but is meeting with growing resistance. Concerns centre on debt sustainability, dependence on Chinese companies and technologies, trade asymmetry, and the fact that projects sometimes benefit Chinese suppliers more than local economies. Added to this is the perception of increasingly unfair Chinese competition, which threatens local industries. **Faced with rising protectionism, the key question is what concessions China will be able to make to the United States, the European Union and the emerging world, whose support it is seeking.**

☑ **Our view –** *China and the United States are maintaining a façade of harmony, embodied in the fragile truce agreed in Busan in October 2025 and extended until next January. However, these two countries are following increasingly irreconcilable models and trajectories: excessive investment on the one hand, excessive consumption on the other; a trade surplus versus a trade deficit. The result is an ever-narrowing scope for negotiation, leading only to* minimal *agreements on secondary issues, without resolving the major points of disagreement. Furthermore, the confrontation is no longer solely about tariffs or rare earths, but about the ability to define the rules of global trade, to finance growth and to impose a development model. In this competition, China has a long-term advantage and a strong capacity for state mobilisation, but remains vulnerable due to weak domestic demand, the misallocation of capital and the growing mistrust of its partners. The real question, therefore, is not whether the truce will hold, but which of the two powers will be able to turn this respite into a more attractive and sustainable international order.*

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Layers of risk are piling up

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