The Marathon Initiative

Terra Cotta Empire:

Exploiting China's Vulnerabilities for Competitive Leverage

December 2026

This study offers U.S. policymakers a framework for identifying, targeting, and leveraging China's vulnerabilities to reduce the threats posed to U.S. interests.

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Executive Summary

U.S. strategy toward China is incomplete. After labeling China a great-power rival in 2017, Washington has invested in the self-strengthening side of competition through domestic renewal, allied coordination, and military deterrence. It has given far less attention to competitive leverage: the advantage a state gains by holding a rival's vulnerabilities at risk. The ensuing lack of competitive leverage has narrowed Washington's options, blunted its responses to China's malign activity, and done little to alter Beijing's calculus. China, by contrast, has paired its own self-strengthening with a deliberate effort to find and exploit U.S. vulnerabilities, as its weaponization of rare earths in 2025 made plain.

To find and build these sources of leverage, we compiled a catalog of China's major vulnerabilities (52 in total) by drawing on expert literature, primary Chinese sources, and interviews and workshops in the United States and the Indo-Pacific (Annex A). We then filtered the catalog through five criteria, asking whether each vulnerability is susceptible to outside influence, touches something Beijing values, would be difficult for China to fix, could be exploited with tools the United States and its partners have or could build, and carries acceptable risk (Figure 1).

Nine focus vulnerabilities cleared all five criteria. We grouped the nine according to the type of liability each creates for Beijing: external dependencies, strategic overextension, and inherent contradictions.

External dependencies are the inputs, markets, and networks China needs but does not control, many of which are supplied by the United States and its allies.

- **Advanced technology dependence.** China still relies on foreign semiconductors, chipmaking equipment, and design software, as well as aerospace components, machine tools, and industrial software. The United States, the Netherlands, and Japan sit at the center of many of these supply chains.
- **Dollar and financial exposure.** China's trade, reserves, and largest banks remain largely tied to a dollar-based financial system that Beijing's own alternatives are not yet able to replace.
- **Energy import dependence.** Despite its large stockpiles, China imports most of its oil, much of which passes through U.S.- or allied-controlled maritime chokepoints.

- **Industrial input dependence.** China's industrial base relies on iron ore, copper, and other critical inputs drawn from a small number of suppliers, many of them U.S. partners.
- **Export market dependence.** With household consumption weak, China's growth depends on selling its manufacturing surplus abroad. Its record $1.2 trillion trade surplus is provoking pushback from advanced and developing economies alike.

Strategic overextension refers to the costs Beijing incurs when its external ambitions outrun its resources, credibility, or capacity to sustain them.

- **Sovereignty disputes.** China's coercion of its neighbors in the South China Sea, the East China Sea, the Taiwan Strait, and along the Indian border has hardened regional resistance and drawn many of those neighbors closer to the United States.
- **Influence operations.** Beijing's efforts to shape foreign politics, intimidate diaspora communities, and police its citizens abroad depend on remaining hidden, making the central government vulnerable to exposure.

Inherent contradictions are the gaps between what the Chinese Communist Party claims to be and what it is.

- **Corruption.** More than a decade into Xi Jinping's anti-corruption campaign, graft is pervasive in the Party and the People's Liberation Army, and the regime goes to great lengths to hide elite families' offshore wealth.
- **Credibility gap.** Beijing portrays China as a benign and responsible power, a claim its conduct at home and abroad frequently contradicts.

Figure 2 summarizes the policy instruments, likely effects, and principal risks for each vulnerability.

Used appropriately, these vulnerabilities can serve three U.S. strategic purposes. The first is to **constrain** China's ability to turn national strength into coercive power, chiefly by limiting its access to advanced technology and by pressing its dependence on foreign markets in strategic sectors. The second is to **deter** Beijing's most serious acts of aggression and, if deterrence fails, to **degrade** its ability to achieve its aims. China's dollar exposure, energy imports, industrial inputs, and sovereignty disputes all offer levers that can raise the potential costs of aggression and, in a protracted conflict, weaken China's wartime economy. The third is to **convert** China's strengths into liabilities by exposing the influence operations, propaganda, and hidden elite wealth that rely on secrecy.

Timing matters, so we sort the nine vulnerabilities into three postures that specify when to press each one and when to hold that leverage in reserve. Four of them, advanced technology dependence, corruption, influence operations, and the credibility gap, can be **exploited now** in ordinary peacetime competition at manageable cost, with pressure intensified if relations deteriorate. Fully exploiting China's dollar and financial exposure, energy imports, and industrial inputs, by contrast, would be highly escalatory, so those options should be **designed, rehearsed, and credibly signaled in advance but withheld until crisis or conflict**. Export market dependence and sovereignty disputes fall between the two and **should be targeted selectively in peacetime and more forcefully in a crisis**, given the risk of unintended escalation and the need for allied coalitions to move in lockstep.

Priority steps for the U.S. government include the following (see Figure 3):

- Synchronize controls on chipmaking equipment, servicing, and subcomponents with the Netherlands and Japan, close remaining loopholes, and codify key controls in law so they cannot be traded away for short-term concessions.
- Build a full escalation ladder of financial measures, from smaller lenders up to China's largest banks, and agree on thresholds with allied financial centers.
- Prepare maritime sanctions and interdiction options for China-bound energy shipments and begin quiet discussions with key regional partners.
- Cushion partners against Chinese retaliation through offtake agreements, stockpiles, and investment in processing capacity outside China.
- Assemble a coalition of advanced and developing economies to coordinate tariffs, rules of origin, and outbound investment screening in strategic sectors.
- Build a persistent capability to attribute Chinese influence operations and harmonize foreign agent transparency regimes with allies.
- Designate a lead agency to coordinate information competition and restore funding for international broadcasting.
- Map the offshore holdings of senior Chinese officials and military officers and impose Global Magnitsky sanctions where warranted.

Throughout, the strategy accounts for how Beijing is likely to respond. It pairs pressure with preparation against retaliation, favors vulnerabilities China cannot quickly fix, and reserves the most escalatory tools for the circumstances that warrant them. It takes no position on whether China has peaked, and its aims stop well short of regime change or confrontation for its own sake.

The United States should continue reducing its dependence on China and rebuilding U.S. and allied strength, and it should also develop the means to hold China's vulnerabilities at risk. Congress can help sustain that effort across administrations by writing key initiatives into law, strengthening oversight, and providing multiyear funding for the offices responsible for building and applying competitive leverage.

The outcome of the U.S.-China competition will depend on which country better strengthens itself *and* better exploits its rival's vulnerabilities. Washington must begin building competitive leverage with the same seriousness it has brought to self-strengthening.

Introduction

> *"No doubt, multipolarity will come in time. In perhaps another generation or so there will be great powers coequal with the United States, and the world will, in structure, resemble the pre-World War I era. But we are not there yet, nor will we be for decades. Now is the unipolar moment."*
>
> - Charles Krauthammer, "The Unipolar Moment," 1990[1]

Niccolò Machiavelli, Renaissance Florence's finest political animal, admonished future princes to never let their thoughts and preparations stray far from the arts of war and statecraft, "even more in peacetime than in war itself." Through equal parts "action" and "study," Machiavelli commended princes to keep their forces "exercised and disciplined," to know their homeland intimately and how to defend it, to understand the adversary's terrain to bring about its defeat, and to "read history" to avoid past blunders and reproduce past triumphs. His exemplar was the Achaean leader Philopoemen, who "thought of nothing but military strategy," a man who would bring his friends into the countryside for a conjectural military staff ride, peppering them with questions about how his army should retreat or attack on this or that hill.[2]

The formidable Achaean's wartime prefigurations in peacetime left him few surprises when conflict came. Marking the lesson, Machiavelli tells us that any "sensible leader" should "never relax in peacetime but work hard to make the most of it and turn it to his advantage in the tough times ahead."[3] The state, through such a leader, must always stay conscientious and vigilant, think ahead, and condition its competitive, if not conflictual, muscles.

Easier said than done, especially for the United States during its "unipolar moment" in the wake of the Cold War. In the decades that followed the fall of the Berlin Wall, the United States grew used to reaping strategic gains without putting in the hard

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[1] Charles Krauthammer, "The Unipolar Moment," *Foreign Affairs*, America and the World 1990 Issue, January 1, 1991, https://www.foreignaffairs.com/articles/1990-01-01/unipolar-moment.
[2] Niccolò Machiavelli, *The Prince*, trans. Tim Parks (New York: Penguin Books, 2009), 115-17; see also Machiavelli, *The Prince*, trans. W. K. Marriott, chap. 14, accessible online at Project Gutenberg, https://www.gutenberg.org/cache/epub/1232/pg1232-images.html.
[3] Machiavelli, *The Prince*, 117.

competitive effort that great-power rivalry usually demands. And why not? After 1991, America had no geopolitical peer.[4]

But it would not last forever as the United States finally began facing an increasingly "coequal" competitor, as Charles Krauthammer warned in the epigraph above. In the blink of one generation, China closed the yawning gap in power and influence between itself and America. Economically, it surpassed the United States in GDP at purchasing power parity and in total goods trade,[5] and it became the world's leading manufacturer, producing nearly 30 percent of global output.[6] Militarily, it quickly built the world's largest navy,[7] beefed up its nuclear arsenal,[8] and plowed vast sums into frontier technologies to lessen its dependence on foreign competitors and expand its own military-economic prowess. Krauthammer's "generation or so" prediction came roughly on time. Instinctively, America tried flexing its competitive muscles against China as it had done with decent results in the Cold War. In important respects, it found them wasted and wanting.

With no great power to think about or train against for a quarter century,[9] the United States left a key facet of competitive statecraft—finding and exploiting an adversary's vulnerabilities to generate leverage and pressure—largely atrophied from disuse.[10] China, for its part, spent much of those same decades studying history and the

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[4] Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992), xiii-xxiii; William C. Wohlforth, "The Stability of a Unipolar World," *International Security* 24, no. 1 (1999): 5-41, https://doi.org/10.1162/016228899560031.

[5] Graham Allison, Nathalie Kiersznowski, and Charlotte Fitzek, *The Great Economic Rivalry: China vs the U.S.*, Belfer Center Paper (Cambridge, MA: Belfer Center for Science and International Affairs, Harvard Kennedy School, March 2022), https://www.belfercenter.org/sites/default/files/2024-09/GreatEconomicRivalry_Final_2_1.pdf.

[6] Richard Baldwin, "China Is the World's Sole Manufacturing Superpower: A Line Sketch of the Rise," *VoxEU*, Centre for Economic Policy Research, January 17, 2024, https://cepr.org/voxeu/columns/china-worlds-sole-manufacturing-superpower-line-sketch-rise.

[7] Niharika Mandhana, Josh Chin, and Camille Bressange, "The U.S. Once Dominated the World's Oceans. China's Xi Is Changing That," *The Wall Street Journal*, November 1, 2026, https://www.wsj.com/world/china/china-xi-maritime-dominance-ef5f5c5a.

[8] U.S. Department of Defense, *Military and Security Developments Involving the People's Republic of China 2024* (Washington, DC: Department of Defense, December 2024), https://media.defense.gov/2024/dec/18/2003615520/-1/-1/0/military-and-security-developments-involving-the-peoples-republic-of-china-2024.pdf.

[9] Andrew F. Krepinevich, *7 Deadly Scenarios: A Military Futurist Explores War in the 21st Century* (New York: Bantam, 2009), 27-29.

[10] For this facet's importance in competitive strategy, see Thomas G. Mahnken, ed., *Competitive Strategies for the 21st Century: Theory, History, and Practice* (Stanford, CA: Stanford University Press, 2012), 1-22.

competitive terrain to identify U.S. vulnerabilities, insulate some of its own, and bank the counter-leverage it could draw on when the moment was right.

This is not to say U.S. national security strategy is underdeveloped writ large. Since designating China a great-power rival in 2017, the United States has made meaningful strides strengthening allied cohesion and military deterrence while maintaining significant economic and technological advantages. But these self-strengthening and defensive lines of effort should be but one part of a broader strategic repertoire.

Over the last decades, Washington has been far less successful in developing the other side of strategic competition, which we call "competitive leverage": the advantage a state gains by holding a rival's vulnerabilities at risk.[11] Time and again, the United States has been outmaneuvered because of this strategic deficit. Recent history has only underscored the point.

On April 2, 2025, his so-called Liberation Day, U.S. President Donald Trump imposed sweeping tariffs on dozens of countries. China, a major trading partner, suddenly faced average levies of nearly 70 percent.[12] Most governments struggled to respond; some eventually cut deals that involved opening their markets or making direct investment or purchase commitments. By contrast, China was primed to retaliate. Two days later, Beijing announced comparable duties and then raised the stakes by introducing export controls on seven rare-earth elements that power everything from smartphones to fighter jets.[13] Because China commands 90 percent of rare-earth processing worldwide,

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[11] Competitive leverage includes coercion but extends beyond it, operating across peacetime competition, crisis, and conflict and aimed at long-term advantage rather than forcing compliance in a single standoff.
[12] Kandy Wong, "As the Dust Settles from Trump's 'Liberation Day,' What's China's Effective Tariff Rate?," *South China Morning Post*, April 3, 2025, https://www.scmp.com/economy/global-economy/article/3305013/dust-settles-trumps-liberation-day-whats-chinas-effective-tariff-rate. The figure combines the 20 percent fentanyl-related tariffs imposed earlier in 2025, the 34 percent reciprocal tariff announced on April 2, and existing Section 301 and other duties averaging roughly 10 to 15 percent. See also Chad P. Bown, "US-China Trade War Tariffs: An Up-to-Date Chart," Peterson Institute for International Economics, https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart.
[13] Scott Kennedy, Ilaria Mazzocco, and Ryan Featherston, "China and the Impact of 'Liberation Day' Tariffs," Center for Strategic and International Studies (CSIS), April 4, 2025, https://www.csis.org/analysis/china-and-impact-liberation-day-tariffs; Gracelin Baskaran and Meredith Schwartz, "The Consequences of China's New Rare Earths Export Restrictions," CSIS, April 14, 2025, https://www.csis.org/analysis/consequences-chinas-new-rare-earths-export-restrictions.

the move threatened to severely disrupt American manufacturing and the U.S. defense industrial base.[14]

In response to China's rare-earth restriction-cum-ultimatum, the Trump administration gradually retreated from the nascent trade war. The initial response of soaring U.S. tariffs was no match for Beijing's stranglehold on critical minerals. As a result, the United States pursued a temporary truce in May that gave way to summer negotiations.[15] Beijing punctuated its leverage by further tightening export licensing rules in October, a clear signal that future controls could bite even harder.[16] Weeks later, when the two leaders met in Busan, South Korea, Trump officially walked back his tariffs and shelved U.S. port fees targeting China's dominance in global shipbuilding, among other concessions. In return, Beijing offered a one-year reprieve from its rare-earth restrictions, which Washington knew could be reversed at any time.[17] In September 2026, the two sides extended the arrangement until November, leaving its future unsettled as this report went to press.[18]

In a matter of months, this competitive asymmetry recast America's approach toward China. The United States went on to soften its stance on issues important to Beijing, dialing back support for Taiwan and loosening controls on advanced technology.[19]

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[14] International Energy Agency, *Global Critical Minerals Outlook 2025* (Paris: IEA, May 2025), https://www.iea.org/reports/global-critical-minerals-outlook-2025; Gideon Rachman, "China Has Laid a Rare Earths Trap for the West," *Financial Times*, August 25, 2025, https://www.ft.com/content/5cd7bccb-24cb-46ec-935a-1da262e435e1.

[15] The White House, "Joint Statement on U.S.-China Economic and Trade Meeting in Geneva," May 12, 2025, https://www.whitehouse.gov/briefings-statements/2025/05/joint-statement-on-u-s-china-economic-and-trade-meeting-in-geneva.

[16] Keith Bradsher, "China Clamps Down Even Harder on Rare Earths," *New York Times*, October 9, 2025, https://www.nytimes.com/2025/10/09/business/china-rare-earth-exports.html.

[17] The White House, "Fact Sheet: President Donald J. Trump Strikes Deal on Economic and Trade Relations with China," 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/.

[18] Andrea Shalal, David Lawder, and Joe Cash, "U.S., China Extend Trade Truce by Two Months as Xi and Trump Meet in Washington," *Reuters*, September 24, 2026, https://www.reuters.com/business/us-china-extend-trade-truce-two-months-xi-trump-summit-2026-09-24/.

[19] On Taiwan, see Demetri Sevastopulo and Kathrin Hille, "US Blocks Taiwan President Lai Ching-te from Transiting New York," *Financial Times*, July 28, 2025; "Trump Halts $400 Million in Taiwan Weapons Aid, Post Reports," *Bloomberg News*, September 19, 2025, https://www.bloomberg.com/news/articles/2025-09-19/trump-halts-400m-in-taiwan-weapons-aid-washington-post-says. On technology, see Stephen Nellis, Karen Freifeld, and Michael Martina, "US to Allow Nvidia H200 Chip Shipments to China, Trump Says," Reuters, December 9, 2025, https://www.reuters.com/world/china/us-open-up-exports-nvidia-h200-chips-china-semafor-reports-2025-12-08/.

Reflecting an effort to avoid re-escalation, the Trump administration outlined its pursuit of "strategic stability" in the 2026 National Defense Strategy, and the two sides later appeared to agree on "constructive strategic stability" as the overriding concept governing the relationship.[20]

China, meanwhile, had more than survived "Liberation Day." In fact, Beijing had reset the terms of the competition in its favor, narrowing Washington's strategic options well into 2026. Back in Washington, leaders began post-morteming the superpower showdown, concluding that the Trump administration had few credible options to prevent, deflect, or retaliate against China's decisive reserve of counter-leverage because the United States, across successive administrations, had not done enough to shore up its vulnerabilities. U.S. Vice President J.D. Vance declared that China's having "so much control over critical supply in the United States of America" is "the definition of a national emergency," a sentiment echoed on Capitol Hill.[21] Policymakers moved quickly to pursue new investments at home and major partnerships abroad to reduce America's dependence on critical minerals from China.[22]

For the time being, Washington appears to be seeking at least a détente with China to buy time for the United States to de-expose itself to Chinese supply chains and shore up remaining vulnerabilities. Put another way, the emerging consensus suggests that outpacing China over the long haul will require America to reinforce its core strengths

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[20] U.S. Department of Defense, *2026 National Defense Strategy* (Washington, DC: Department of Defense, January 2026), 3, https://media.defense.gov/2026/Jan/23/2003864773/-1/-1/0/2026-NATIONAL-DEFENSE-STRATEGY.PDF. The strategy commits to "seek and open a wider range of military-to-military communications with the People's Liberation Army (PLA) with a focus on supporting strategic stability with Beijing" while remaining "clear-eyed" about China's "historic military buildup." On the May 2026 summit, see "Xi-Trump Meeting Charts Course for Constructive Strategic Stability in China-U.S. Ties," *Xinhua*, May 17, 2026, https://english.news.cn/20260517/d50300c5f44b418eaf63dc9a0494e856/c.html.

[21] J.D. Vance, interview by Maria Bartiromo, *Sunday Morning Futures*, Fox News, October 12, 2025, television interview transcript reprinted in *Roll Call*, accessible at https://rollcall.com/factbase/trump/transcript/donald-trump-interview-jd-vance-bartiromo-fox-sunday-morning-futures-october-12-2025/.

[22] See, for example, MP Materials, "MP Materials Announces Transformational Public-Private Partnership with Department of Defense to Accelerate U.S. Rare Earth Magnet Supply Chain," July 10, 2025, https://mpmaterials.com/news/mp-materials-announces-transformational-public-private-partnership-with-the-department-of-defense-to-accelerate-u-s-rare-earth-magnet-independence/; The White House, "United States-Australia Framework for Securing of Supply in the Mining and Processing of Critical Minerals and Rare Earths," October 20, 2025, https://www.whitehouse.gov/briefings-statements/2025/10/united-states-australia-framework-for-securing-of-supply-in-the-mining-and-processing-of-critical-minerals-and-rare-earths/.

and prevent China from pressing U.S. weaknesses. This is necessary but insufficient. These objectives alone risk missing an important point: competition is comparative. The "core engines of American power" may be "humming," as former national security adviser Jake Sullivan put it in 2025,[23] but that will not be enough to defend U.S. interests as China moves to consolidate its advantages in manufacturing, energy, and military power.

A more complete strategy will have to reckon with the fact that China's success in cornering the Trump administration was about more than America's failure to eliminate its supply chain dependencies. It reflected a U.S. strategy in arrears, a shortfall that spans administrations and stems from Washington's failure after the Cold War to prepare for great-power competition. After all, why was Xi so undeterred from throwing down the gauntlet against the United States? And why was the Trump administration so devoid of options in response? This report offers answers to these questions and a way out of the strategic cul-de-sac in which America now finds itself.

The Argument

U.S. strategy toward China is still not fit for the competition ahead. Washington has rightly emphasized the self-strengthening and defensive side of competition, including domestic renewal, allied coordination, and military deterrence, even if it has pursued these efforts fitfully and without the requisite urgency. The same cannot be said for competitive leverage, the other side of the ledger.

As a result, the United States is missing a cornerstone of good competitive statecraft: identifying and exploiting an adversary's vulnerabilities. Left unaddressed, that absence has proven costly and will only grow more so. It has already narrowed Washington's options, blunted its responses to Beijing's most aggressive acts, and done little to alter Beijing's calculus or improve America's relative power position.

This report seeks to close that gap by answering the organizing questions Washington has sidestepped for far too long: Which of China's vulnerabilities can be turned into usable sources of competitive leverage? Under what conditions should the United States aim to do so, and with which tools of U.S. statecraft?

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[23] Demetri Sevastopulo, "Former National Security Adviser Jake Sullivan: 'The Core Engines of American Power Are Humming,'" *Financial Times*, January 31, 2025, https://www.ft.com/content/fae9c36a-99fd-45e7-94ff-2706f838ddcf.

Some of China's vulnerabilities are too dangerous to exploit, too systemic to alter, or too trivial to matter. For what we believe is the first time in U.S. China policy literature, this report comprehensively filters a catalog of more than 50 of China's vulnerabilities through a disciplined set of criteria to identify its most consequential pain points. The catalog draws on international relations theory, primary Chinese sources, and interviews and workshops with experts in the United States and the Indo-Pacific. We argue that a subset of China's vulnerabilities stands apart: its external dependencies, its strategic overextension, and its inherent contradictions.

We examine how these vulnerabilities, when pressed appropriately, can generate U.S. competitive leverage that serves three distinct strategic purposes: (1) to constrain China's ability to turn national strength into coercive power; (2) to deter and degrade Beijing's military, economic, or political aggression; and (3) to convert China's strengths into liabilities.

Exploiting an adversary's vulnerabilities may sound aggressive or destabilizing at first glance. In practice, it is a routine feature of great-power competition, one the United States practiced throughout the Cold War and China practices against the United States today. Pursued through calibrated, proportional means, it can also strengthen deterrence and reduce the risk of conflict. The aim is to protect and advance U.S. interests, and it stops well short of regime change or all-out confrontation.

Building this new competitive pillar alongside self-strengthening has grown increasingly urgent. Since the late 2010s, U.S. national security and defense strategies have cast China as a "strategic competitor" and "revisionist power."[24] Successive administrations and their strategic reviews have promised to spend, build, and do more to meet the challenge. Rarely have they asked whether China has weaknesses that, if pressed, might ease and support America's task.

Outside military planning and intelligence work, where adversary vulnerabilities are routinely assessed, questions of where China is exposed, why, and how those exposures could be exploited have gone largely unanswered. Filling that lacuna cannot wait. With U.S. munitions stockpiles depleted and American resources stretched across four

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[24] *National Security Strategy of the United States of America* (Washington, DC: The White House, December 2017), 25, https://trumpwhitehouse.archives.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf; U.S. Department of Defense, *Summary of the 2018 National Defense Strategy of the United States of America* (Washington, DC: Department of Defense, January 2018), 1-2, https://media.defense.gov/2020/May/18/2002302061/-1/-1/1/2018-NATIONAL-DEFENSE-STRATEGY-SUMMARY.PDF.

challengers and multiple theaters,[25] the neo-Achesonian aspiration to build "situations of strength" everywhere is no longer sufficient to deter China.

U.S. policymakers, therefore, need a clearer understanding of what can be done soon, at acceptable risk and affordable cost, to produce competitive leverage. To our knowledge, despite valuable work on parts of this problem, no public study has rigorously analyzed China's vulnerabilities through a framework that selects the most consequential and practical ones to exploit in service of U.S. strategic aims. Nor has any folded those vulnerabilities into a sequenced competitive strategy spanning peacetime competition, crisis, and conflict.

Roadmap

What has been missing in Washington over the past decade is a framework for deciding which of China's pain points to target, why, and how, along with the bureaucratic machinery and the political legitimacy to do so. Both theory and history provide U.S. strategists with the imperative and insights needed for such an approach. The challenge now is for policymakers to synthesize this knowledge and create a coherent strategy to gain a greater competitive edge against China.

Part I makes the case for why the United States needs to develop a strategy of competitive leverage. It explains how the necessary but hasty upheaval in China policy from engagement to competition left Washington little time to develop a competitive theory of victory. The resulting strategy has largely been improvised, like a pilot building a plane as he flies it. It then recovers what recent U.S. policy has forgotten: great powers complement their self-strengthening efforts by also exploiting the weaknesses of their rivals. Drawing on a Cold War tradition that runs through George Kennan and Andrew Marshall, this part also normalizes the project's premise. Exploiting an adversary's vulnerabilities is a strategic constant, and one China already practices against the United States today. Part I closes by reviewing the existing literature on China's vulnerabilities and where it falls short.

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[25] On low U.S. munitions stockpiles even before the wars in Ukraine and the Middle East, see Seth G. Jones, *Empty Bins in a Wartime Environment: The Challenge to the U.S. Defense Industrial Base* (Washington, DC: CSIS, January 2023), https://www.csis.org/analysis/empty-bins-wartime-environment-challenge-us-defense-industrial-base. On further depletion since the 2026 Iran war, see Paul McLeary, "Iran War Has Drained U.S. Munitions Stockpiles, Pentagon Watchdog Says," *Politico*, September 15, 2026, https://www.politico.com/news/2026/09/15/iran-war-munitions-shortfall-01076933.

After Part I substantiates the study, Part II filters our comprehensive catalog of China's vulnerabilities, which appears in full in Annex A, through five criteria. The result is nine key vulnerabilities that offer the U.S. government the highest chance of accumulating competitive leverage: advanced technology dependence, dollar and financial exposure, energy import dependence, industrial input dependence, export market dependence, influence operations, sovereignty disputes, corruption, and the credibility gap. We group them into three types based on the liabilities they produce for Beijing: external dependencies, strategic overextension, and inherent contradictions.

Part III then examines each vulnerability in turn and details the policy tools and processes needed to turn it into leverage. Part IV assembles these descriptions and prescriptions into a broader strategy grounded in the pursuit of competitive leverage vis-à-vis China. Crucially, it discusses *when* to exploit a given vulnerability and *to what end*. We identify three strategic purposes. The first is to constrain China's ability to turn national strength into coercive power. The second is to deter and degrade Beijing's aggression (or compel China's retreat) by imposing costs. The third is to convert China's strengths into liabilities, for instance by exposing the gap between the regime's claims and its conduct, thereby eroding its ability to exert malign influence abroad.

The Conclusion synthesizes the argument, addresses counterarguments, and discusses the way forward.

Because much of this approach is untrodden ground, this study includes a series of concepts and categories we are introducing for the first time. We do not intend for policymakers and analysts to feel awash in frameworks and diagrams. We hope instead that scholars and practitioners will build upon our inaugural effort to help close this lacuna by refining the concepts offered herein.

In all, we hope our report is a starting point for discussion, a starting gun for developing a strategic approach to exploiting China's vulnerabilities. By broadening the range of options available to U.S. policymakers, and thereby increasing U.S. freedom of action, we hope present and future officials never again feel shorn of solutions.

Part I. Diagnosing the Leverage Gap

Why should the United States pursue competitive leverage vis-à-vis China?

The United States has slowly come to terms with the fact that its previous, decades-long strategy toward China was no longer suitable for the growing challenge, and that, far from becoming the partner it had hoped for, China had become the most formidable rival the republic has ever faced.

This reckoning first found official expression in the Trump administration's 2017 National Security Strategy (NSS). The watershed document judged China to be a strategic "competitor" and "revisionist" power bent on "shap[ing] a world antithetical to U.S. values and interests."[26] The administration's follow-on 2018 National Defense Strategy (NDS) reinforced this shift, elevating great-power competition over counterterrorism as the organizing principle of U.S. defense policy.[27]

Together, these documents marked a sea change in U.S. security policy. From Nixon to Obama, the central logic of U.S. policy toward China was engagement. After the Cold War, that engagement increasingly aimed at encouraging economic interdependence and political liberalization. The premise was that China could be converted over time into a "responsible stakeholder" in the U.S.-led international order.[28] In practice, the United States did more than just engage this rising power. In many respects, Washington actively aided, abetted, and enabled China's rise as a global heavyweight.[29]

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[26] *2017 National Security Strategy*, 25; Hal Brands and Zack Cooper, "After the Responsible Stakeholder, What? Debating America's China Strategy," *Texas National Security Review* 2, no. 2 (February 2019): 68-81, https://tnsr.org/2019/02/after-the-responsible-stakeholder-what-debating-americas-china-strategy-2/.
[27] *Summary of the 2018 National Defense Strategy*, 1; Jim Mattis, "Remarks by Secretary Mattis on National Defense Strategy," U.S. Department of Defense, December 1, 2018, https://www.war.gov/News/Transcripts/Transcript/Article/1702965/remarks-by-secretary-mattis-on-national-defense-strategy/.
[28] Robert B. Zoellick, "Whither China: From Membership to Responsibility?," remarks to the National Committee on U.S.-China Relations, New York, September 21, 2005, https://2001-2009.state.gov/s/d/former/zoellick/rem/53682.htm; Thomas J. Christensen, *The China Challenge: Shaping the Choices of a Rising Power* (New York: W. W. Norton, 2015), xxi, 6-8.
[29] Kurt M. Campbell and Ely Ratner, "The China Reckoning: How Beijing Defied American Expectations," *Foreign Affairs,* March/April 2018, https://www.foreignaffairs.com/articles/china/2018-02-13/china-reckoning; Aaron L. Friedberg, *Getting China Wrong* (Cambridge: Polity, 2022), *passim*.

That logic persisted into the twenty-first century. Though he initially called China a "strategic competitor" on the campaign trail, George W. Bush also argued that normalizing trade relations would promote freedom in China. "China today is not a free society," Bush told a campaign audience in 2000. "[But] economic freedom creates habits of liberty. And habits of liberty create expectations of democracy…Trade freely with China, and time is on our side."[30] China, for its part, actively cultivated these aspirations in the West. Its leaders pledged a "peaceful rise" and promised "a democratic, harmonious and stable [China] under the rule of law."[31] There were skeptics among China watchers, but their warnings went largely unheeded to give engagement and integration a chance.

Not everyone embraced engagement. Foreseeing that China's rise would eventually challenge U.S. primacy, John Mearsheimer argued in *The Tragedy of Great Power Politics* (2001) that U.S. "engagement" policy toward China was "misguided." If China's economy continued "modernizing at a rapid pace," aided in large part by American help and deference, it would soon build "military forces…so powerful" that "other states would not dare challenge it." China would become "an aggressive state determined to achieve regional hegemony" and America, long dominant in the Asia-Pacific region, would have to abandon engagement to contain this "great-power rival."[32] In 2005, Princeton scholar Aaron Friedberg similarly asked whether U.S.-China relations would devolve into "an increasingly open competition, and perhaps even war."[33]

Initially dismissed, these warnings gained traction as China's assertiveness and confidence on the world stage grew in the wake of the 2008 global financial crisis.

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[30] "Excerpts of George W. Bush's Speech in Washington State," *New York Times*, May 18, 2000, https://archive.nytimes.com/www.nytimes.com/library/world/asia/051800bush-text.html. For a broader review of this line of thought, see James Mann, *The China Fantasy* (New York: Viking, 2007), 1-5.
[31] State Council of the People's Republic of China, "China's Peaceful Development," White Paper (Beijing: State Council Information Office, September 6, 2011), https://english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284646.htm; Zheng Bijian, "China's 'Peaceful Rise' to Great-Power Status," *Foreign Affairs*, September/October 2005, https://www.foreignaffairs.com/articles/asia/2005-09-01/chinas-peaceful-rise-great-power-status.
[32] John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton, 2001), 400-402; Mearsheimer, "The Future of the American Pacifier," *Foreign Affairs*, September/October 2001, https://www.foreignaffairs.com/articles/united-states/2001-09-01/future-american-pacifier; Mearsheimer, "The Gathering Storm: China's Challenge to US Power in Asia," *Chinese Journal of International Politics* 3, no. 4 (2010): 381-96.
[33] Quote from Aaron L. Friedberg, "The Future of U.S.-China Relations: Is Conflict Inevitable?," *International Security* 30, no. 2 (Fall 2005): 7. Also, see Aaron Friedberg, *A Contest for Supremacy* (New York: W. W. Norton, 2011).

America's seemingly endless wars in Iraq and Afghanistan further emboldened Beijing. By 2011, the Obama administration, watching China's military expansion and increasing coercion in the East and South China Seas, launched its "pivot to Asia," promising greater U.S. focus on the Pacific. In 2012, the Pentagon announced that 60 percent of U.S. naval forces would be deployed to the Pacific by 2020.[34] U.S. economic and diplomatic ties would be deepened throughout the region.[35]

Although the United States has taken important steps to strengthen its position in the Indo-Pacific over the past 15 years, the pivot was never fully realized. As Robert Blackwill and Richard Fontaine argue in *Lost Decade* (2024), the region never received the attention, urgency, or resources the China challenge demanded.[36] China, meanwhile, rose with considerable American help but neither liberalized nor accepted the prevailing regional order. Under Xi Jinping, who took power in late 2012 promising a "China Dream" of national rejuvenation, Beijing used its material gains to challenge that order.[37] It militarized islands in the South China Sea, tightened authoritarian control in Hong Kong, Tibet, and Xinjiang, and launched "Made in China 2025" to reduce its dependence on foreign technology.[38] Each step further exposed the limits of engagement.

Building on its reframing of the China challenge, the first Trump administration began, somewhat haltingly, to act like a competitor itself. Three developments accelerated the relationship's competitive turn: Beijing fell far short of its commitments under the 2020 Phase One trade agreement;[39] it suppressed critical information early in the COVID-19 pandemic, which went on to upend global public health;[40] and it escalated aggressive

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[34] Leon E. Panetta, remarks at the Shangri-La Dialogue, Singapore, June 2, 2012, https://content.govdelivery.com/accounts/USDOD/bulletins/43097b.
[35] Mark E. Manyin et al., "Pivot to the Pacific? The Obama Administration's 'Rebalancing' Toward Asia," *Congressional Research Service* (R42448), March 28, 2012, https://crsreports.congress.gov/product/pdf/R/R42448.
[36] Robert D. Blackwill and Richard Fontaine, *Lost Decade: The US Pivot to Asia and the Rise of Chinese Power* (New York: Oxford University Press, 2024).
[37] Rush Doshi, *The Long Game: China's Grand Strategy to Displace American Order* (New York: Oxford University Press, 2021), 261-76; for direct reference to the "Dream," see especially 30.
[38] U.S.-China Economic and Security Review Commission, *Made in China 2025: Evaluating China's Performance* (Washington, DC: U.S.-China Economic and Security Review Commission, November 14, 2025), https://www.uscc.gov/research/made-china-2025-evaluating-chinas-performance.
[39] Chad P. Bown, "Anatomy of a Flop: Why Trump's US-China Phase One Trade Deal Fell Short," Peterson Institute for International Economics, February 8, 2021, https://www.piie.com/blogs/trade-and-investment-policy-watch/2021/anatomy-flop-why-trumps-us-china-phase-one-trade-deal.
[40] Chris Buckley and Steven Lee Myers, "As New Coronavirus Spread, China's Old Habits Delayed Fight," *New York Times*, February 1, 2020, https://www.nytimes.com/2020/02/01/world/asia/china-

"wolf warrior" diplomacy.[41] All three undercut Beijing's long-proclaimed image as a "responsible major country," pushing Washington to largely jettison its decades-long consensus on engagement.

The turn was long overdue, but also abrupt. While engagement had a long legacy of concepts and policies to draw on, competition had to be improvised in execution. Three imperatives emerged: (1) prioritize China as the main strategic challenge facing America; (2) rebalance the U.S.-China economic relationship through tariffs, export controls, and targeted decoupling; and (3) strengthen the U.S. military posture in the Indo-Pacific.

The Biden administration largely adopted and expanded its predecessor's framework of strategic competition with China, making major investments at home and building new coalitions with partners abroad. It maintained Trump-era tariffs and tightened export controls to keep U.S.-designed or -manufactured technology from fueling China's military and intelligence apparatuses. Amid wars in Ukraine and eventually the Middle East, these technology restrictions were governed by a deliberately narrow "small yard, high fence" ethos.[42]

Beyond semiconductors, however, plans to exploit China's dependencies were largely absent. The Biden team focused its energies on re-creating Dean Acheson's "situations of strength" by revitalizing alliances, building coalitions, and investing in strategic industries and diversified supply chains.[43] The policy was much more pro-America than counter-China. By developing and fortifying the sources of national power, the

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coronavirus-speed-authoritarian.html; for context, also see Yuen Yuen Ang, "The Problem with Zero," *Foreign Affairs*, December 2, 2022, https://www.foreignaffairs.com/china/problem-zero-xi-pandemic-policy-crisis; Lynette H. Ong, "China's Epidemic of Mistrust," *Foreign Affairs*, January 11, 2023, https://www.foreignaffairs.com/china/china-epidemic-mistrust-xi-jinping-covid-19.

[41] Steven Lee Myers, "China's Aggressive Diplomacy Weakens Xi Jinping's Global Standing," *New York Times*, April 17, 2020, https://www.nytimes.com/2020/04/17/world/asia/coronavirus-china-xi-jinping.html. For Beijing's aggressive diplomacy outside of COVID times, see Peter Martin, *China's Civilian Army: The Making of Wolf Warrior Diplomacy* (New York: Oxford University Press, 2021).

[42] Jake Sullivan, "Remarks on Renewing American Economic Leadership," speech, Brookings Institution, Washington, DC, April 27, 2023, https://www.presidency.ucsb.edu/documents/remarks-national-security-advisor-jake-sullivan-renewing-american-economic-leadership-the.

[43] Dean Acheson, *Present at the Creation: My Years in the State Department* (New York: W. W. Norton, 1969), 378.

administration aimed to give the United States a "very strong hand" for the long-term competition.[44]

Those efforts were important and will likely prove critical to how the competition is ultimately decided. But self-strengthening represents only one half of America's competitive position, and on its own, it is not enough.

Filling in the other half by leveraging China's vulnerabilities to increase U.S. strategic advantage is also vital. Yet it has received far less attention than self-strengthening, and rarely in such a comprehensive or strategic way. The main exception has been technology. Over the past decade, the United States has landed surgical but powerful blows on China's dependence on advanced U.S.-origin technology.

In 2018, the first Trump administration brought ZTE, one of China's leading telecommunications companies, to the brink of bankruptcy with a single denial order preventing it from acquiring U.S. parts or software.[45] A year later, the administration added Huawei, China's national champion in telecommunications equipment, to the Commerce Department's Entity List, and in 2020 it extended the restrictions to foreign-made chips produced with U.S. technology. The effort, designed to keep Huawei out of U.S. and allied networks while cutting off its access to essential foreign inputs, sent Huawei's smartphone market share plummeting while accelerating its push for technological self-sufficiency.[46]

The Biden administration expanded the campaign, extending restrictions from individual companies to entire categories of technology, particularly advanced semiconductors, chip-making tools, and related high-end technologies. It also applied license requirements far more broadly to foreign-made equipment produced with U.S.

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[44] "Jake Sullivan on Biden's Foreign Policy Legacy and the State of U.S. Allies and Enemies," PBS *NewsHour*, January 10, 2025, transcript, https://www.pbs.org/newshour/show/jake-sullivan-on-bidens-foreign-policy-legacy-and-trumps-unconventional-tactics.

[45] Lingling Wei, "Trump Pledges to Help China's ZTE 'Get Back Into Business, Fast,'" *Wall Street Journal*, May 13, 2018, https://www.wsj.com/articles/trump-in-tweet-says-working-with-chinese-president-xi-to-keep-zte-in-business-1526225831.

[46] Jill C. Gallagher, "U.S. Restrictions on Huawei Technologies: National Security, Foreign Policy, and Economic Interests," *Congressional Research Service*, January 5, 2022, https://www.congress.gov/crs-product/R47012.

technology and established new screening of outbound investment in China's sensitive sectors. These measures constrained China, and their logic was sound.[47]

The problem is what happened next, or rather what did not. Having struck a nerve, Washington never embedded that pressure in a broader competitive strategy. In short order, the ZTE denial order was traded away for a fine and compliance measures.[48] The Huawei siege plateaued as the company circumvented U.S. restrictions and recovered part of its profits with indigenously developed technology.[49] The semiconductor controls were imposed, partially waived, sometimes exchanged for other concessions, and then left untethered to any plan to convert technological denial into strategic gain.[50]

Competitive Leverage Lacuna

This gap did not arise overnight. For decades, U.S. administrations and policymakers in both parties avoided exploiting or deepening China's weaknesses, viewing such efforts as unnecessary or counterproductive, if not beyond the bounds of fair play. When Washington did apply serious economic or diplomatic pressure on China, it was usually in service of other priorities, such as enforcing sanctions on Iran or North Korea, and seldom part of any sustained competitive effort.

The recent moves against China's telecommunications and semiconductor sectors were a partial exception. Otherwise, administrations have prioritized amassing military power, investing at home, assembling coalitions of like-minded allies, and building guardrails to prevent inadvertent escalation.

That model befitted Washington in an era of unrivaled American power, but it is poorly matched to a rival that now wields the capacity and resolve to challenge core U.S. interests. Consider how few reprisals Beijing has faced, given the scale of its theft of U.S.

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[47] The critique that export controls accelerated China's drive for technological self-reliance at the expense of U.S. companies' revenues is addressed in Part III. On the Biden administration's controls, see Gregory C. Allen, *Understanding the Biden Administration's Updated Export Controls* (Washington, DC: CSIS, December 2023), https://www.csis.org/analysis/understanding-biden-administrations-updated-export-controls; on outbound investment screening, see Executive Order 14105, "Addressing United States Investments in Certain National Security Technologies and Products in Countries of Concern," August 9, 2023.

[48] Ana Swanson, "U.S. Lifts Ban That Kept ZTE from Doing Business with American Suppliers," *New York Times*, July 13, 2018, https://www.nytimes.com/2018/07/13/business/zte-ban-trump.html.

[49] Huawei Investment & Holding Co., Ltd., *2023 Annual Report* (Shenzhen: Huawei, March 2024), https://www.huawei.com/en/annual-report/2023.

[50] Nellis, Freifeld, and Martina, "US to Allow Nvidia H200 Chip Shipments."

intellectual property, its incessant provocations in the Taiwan Strait and South China Sea, its relentless cyber-intrusions into U.S. critical infrastructure, its economic coercion of American allies, and, more recently, its weaponization of critical minerals. In each instance, Washington's response options—be they diplomatic protests, targeted sanctions, or shows of force—have been modest, predictable, and largely ineffective at steering Beijing away from its malign behavior. If the United States is serious about defending its interests in the face of China's rise, Washington will have to search for complementary strategies.

The Limits of Running Faster

Washington may be tempted to believe that its internal advantages will ultimately overcome whatever challenges China presents. After all, in nearly every major conflict it has fought since the Spanish-American War, the United States outpaced its opponents in economic growth, technological development, and factors of material production.[51] But the same may not hold today because China is an entirely different competitor. Uniquely among America's historic opponents, it possesses the population, latent national wealth, focused technology investments, and industrial capacity to potentially outproduce, outbuild, and outlast the United States in a protracted, symmetric grind. Against such a rival, simply striving for primacy and overmatch is unlikely to suffice.

Leading U.S. policymakers and strategists, mindful of China's growing might, have stressed that Washington must marshal the resources required to compete, and that the hour is growing late. With an eye toward China's advantages in sheer size, former officials Kurt Campbell and Rush Doshi recommend that Washington aggregate the economic, technological, and military weight of its partners to achieve what they call "allied scale."[52]

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[51] Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987), 271-72, 331-32, 442-43; Arthur Herman, *Freedom's Forge: How American Business Produced Victory in World War II* (New York: Random House, 2012).

[52] Kurt M. Campbell and Rush Doshi, "Underestimating China: Why America Needs a New Strategy of Allied Scale to Offset Beijing's Enduring Advantages," *Foreign Affairs*, May/June 2025, https://www.foreignaffairs.com/articles/china/2025-04-15/underestimating-china-allied-scale-campbell-doshi; Kurt M. Campbell and Rush Doshi, "America Can't Match China Without Allies," *New York Times*, September 7, 2025, https://www.nytimes.com/2025/09/07/opinion/us-trump-china-allies.html.

The figures bear this out. China's manufacturing output is roughly double America's, and it dominates global production of electric vehicles, solar panels, and steel.[53] According to a March 2025 Center for Strategic and International Studies (CSIS) report, China accounts for more than half of global shipbuilding, compared with roughly 0.1 percent for the United States, and its largest state-owned shipbuilder built more tonnage in 2024 than all U.S. shipbuilders have since 1945.[54] Meanwhile, U.S. munitions inventories have been drawn down by conflicts in Ukraine, Gaza, and Iran.[55] China, by contrast, set missile production records in 2024 and again in 2025.[56]

Campbell and Doshi's diagnosis is right, and allied scale should be a long-term goal. But in too many sectors, building it will take years. Regulatory barriers, technology-transfer rules, shifting political and diplomatic conditions, and the physical limits of production all stand in the way. In the meantime, China will retain significant advantages and, in areas like rare-earth supply chains, considerable leverage over the United States and its allies. Competitive leverage can help fill that window and complement allied scale beyond it. Unlike new shipyards or munitions lines, strategies to exploit China's weaknesses can begin now, offsetting some of Beijing's advantages in size while the United States and its partners build the combined capacity to match it over the long haul.

Finally Playing Fair

Beijing has long grasped what Washington preferred to paper over: self-strengthening alone is not enough to top a great-power rival. In the mid-1990s, after the Soviet collapse and the Gulf War prompted a reassessment of its security environment, China began pairing domestic renewal with efforts to exploit the seams in American power.[57] While Washington spent two decades fighting land wars in the Middle East, Beijing leveraged the openness of the U.S. economy through industrial policies, anti-

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[53] Baldwin, "China Is the World's Sole Manufacturing Superpower"; International Energy Agency, *Global EV Outlook 2026* (Paris: IEA, 2026), https://www.iea.org/reports/global-ev-outlook-2026; World Steel Association, *World Steel in Figures 2026* (Brussels: World Steel Association, 2026), https://worldsteel.org/data/world-steel-in-figures-2026/.

[54] Matthew P. Funaiole, Brian Hart, and Aidan Powers-Riggs, *Ship Wars: Confronting China's Dual-Use Shipbuilding Empire* (Washington, DC: CSIS, March 11, 2025), https://www.csis.org/analysis/ship-wars-confronting-chinas-dual-use-shipbuilding-empire.

[55] Jones, *Empty Bins*; McLeary, "Iran War Has Drained U.S. Munitions Stockpiles."

[56] "China's Secretive Missile Program Is Making Dozens of Companies Rich," *Bloomberg News*, May 12, 2026, https://www.bloomberg.com/graphics/2026-china-missiles-military-ambitions/.

[57] On Beijing's strategy of "blunting" American power after the Tiananmen crisis, the Gulf War, and the Soviet collapse, see Doshi, *The Long Game*, chaps. 3-6.

competitive trade practices, forced technology transfers, and cyber theft to accelerate its rise and undermine U.S. strengths. The resulting theft of intellectual property was so vast that former NSA director Keith Alexander called it "the greatest transfer of wealth in history."[58]

Combined with rapid military modernization, multi-domain pressure against U.S. partners, and the land reclamation in the South China Sea, these efforts steadily eroded American power projection and allied confidence across the Western Pacific. Having "cornered the market" in rare-earth processing and refining, to quote U.S. Secretary of State Marco Rubio, Beijing turned a supply-chain advantage into a decisive geostrategic weapon.[59] China may have only unsheathed it recently, but Beijing had been sharpening the blade for decades. And even if China's leaders did not foresee this precise use, they are wielding it with clear intent today.[60]

Turnabout is fair play, doubly so because China has ample vulnerabilities of its own, embedded in its economy, society, and foreign policy. In the five years since Xi announced that "the East is rising and the West is declining,"[61] China's official growth rate has fallen to around or below 5 percent, its deaths have outnumbered births for the first time since the Great Leap Forward famine, and its economy has been racked by a property crisis and a prolonged bout of deflation.[62]

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[58] Josh Rogin, "NSA Chief: Cybercrime Constitutes the 'Greatest Transfer of Wealth in History,'" *Foreign Policy*, July 9, 2012, https://foreignpolicy.com/2012/07/09/nsa-chief-cybercrime-constitutes-the-greatest-transfer-of-wealth-in-history/.

[59] Marco Rubio, "Secretary of State Marco Rubio at the American Compass Fifth Anniversary Gala," speech, Washington, DC, June 3, 2025, https://www.state.gov/releases/office-of-the-spokesperson/2025/06/secretary-of-state-marco-rubio-at-the-american-compass-fifth-anniversary-gala.

[60] Some scholars argue that Beijing stumbled into rare-earth dominance rather than designed it and learned to weaponize it, in part, by watching Washington. For example, see Gloria Xiong and Jessica Chen Weiss, "How China Found Its Most Potent Weapon: The Real History of Beijing's Rare-Earth Dominance," *Foreign Affairs*, September/October 2026, https://www.foreignaffairs.com/china/how-china-found-most-potent-weapon-xiong-weiss.

[61] Chris Buckley, "'The East Is Rising': Xi Maps Out China's Post-Covid Ascent," *New York Times*, March 3, 2021, https://www.nytimes.com/2021/03/03/world/asia/xi-china-congress.html.

[62] National Bureau of Statistics of China, "Statistical Communiqué of the People's Republic of China on the 2025 National Economic and Social Development," February 2026, https://www.stats.gov.cn/english/; on regional bank failures, see "China to Repay Customers Hit by Bank Scam That Sparked Protests," Al Jazeera, July 12, 2022, https://www.aljazeera.com/economy/2022/7/12/two-chinese-provinces-to-make-some-repayments-after-bank-deposit.

Beneath these developments lie deeper structural headwinds: weak domestic demand, mounting local debt, high youth unemployment, and an aging and shrinking workforce. China's military, the People's Liberation Army (PLA), is riddled with corruption and untested in combat, and the regime has grown increasingly reliant on repression, digital surveillance, and propaganda to maintain social control. Abroad, China is locked in sovereignty disputes with many of its neighbors and counts North Korea as its only formal treaty ally. It also remains heavily dependent on the United States and its partners for raw materials, capital, industrial inputs, advanced technology, export markets, and the dollar itself.[63]

This litany of liabilities foretells neither China's imminent collapse nor its inevitable decline. It does, however, suggest that Beijing is susceptible to strategic pressure. When Xi retaliated in April 2025, he laid bare a foundational gap in Washington's China strategy: the absence of competitive leverage over its foremost rival. Having seen that well-timed pressure can yield American deference, Beijing has every reason to try again.

Listening to the Forebears

This would not be the first time the United States sought to gain advantage over a rival by mobilizing more power (through domestic investment, alliances, and military innovation) *and* by complicating the rival's ability to mobilize its own. These are complementary, not contradictory or mutually exclusive, theories of strategic competition.

In the Cold War's earliest days, George Kennan's Long Telegram and "X" article in *Foreign Affairs* advocated for U.S. and allied self-strengthening. Equally important, Kennan flagged the internal contradictions of Soviet power and argued that Washington could increase the strains on the Soviet system, hastening its "mellowing" or eventual dissolution.[64] Containment was never "a purely negative policy," he explained. It required "forward action": "holding our own world together" while "increasing the disruptive strains in the Soviet world."[65] Even NSC-68, remembered for

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[63] These vulnerabilities are documented in Annex A.

[64] X (George F. Kennan), "The Sources of Soviet Conduct," *Foreign Affairs* 25, no. 4 (July 1947): 566-82, at 582 ("mellowing"). For a historical overview, see John Lewis Gaddis, *Strategies of Containment: A Critical Appraisal of American National Security Policy during the Cold War*, rev. ed. (New York: Oxford University Press, 2005), chap. 2.

[65] George Kennan quotes from 1948 and 1949, respectively, quoted in Hal Brands, *The Twilight Struggle: What the Cold War Teaches Us about Great-Power Rivalry Today* (New Haven, CT: Yale University Press, 2022), 103.

its call to maximize U.S. military power regardless of fiscal constraints, also endorsed "dynamic steps to reduce the power and influence of the Kremlin."[66]

Washington's competitor-enervating approaches were formalized in the early 1970s under Andrew Marshall, the founding director of the Pentagon's Office of Net Assessment (ONA). A year before ONA was established, Marshall's landmark 1972 RAND study set out to make the United States "an effective, efficient competitor" by exploiting U.S.-Soviet asymmetries. It argued that the U.S. military should build cost-effective forces that would compel Moscow to buy costly, defensive, or futile capabilities.[67]

From this, the idea of "competitive strategies" at the Pentagon was born. The B-2 stealth bomber program, the Strategic Defense Initiative, and Reagan's "Maritime Strategy" each triggered deep Soviet anxieties, driving the ossified Kremlin to pour its dwindling resources into costly countermeasures that drained the Soviet economy yet posed little threat to the United States.[68] Marshall's stratagems were initially intended for military matters, but he encouraged their use across other competitive domains, including political, economic, and cultural. The Reagan administration took up that challenge, pressing on Soviet weaknesses at home and abroad through tighter controls on Western technology, support for Solidarity and anti-Soviet insurgencies, and quiet encouragement of lower Saudi oil prices that cut into Soviet hard-currency earnings.[69]

The Cold War offers a useful reminder, if an imperfect analogy. China is not the Soviet Union, and today's competition differs in meaningful ways from the Cold War. China's economy is larger, its technology ecosystem is more dynamic, and it is woven more deeply into global economics and politics. Still, the record shows that successful

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[66] National Security Council, "NSC 68: United States Objectives and Programs for National Security," April 14, 1950, in *Foreign Relations of the United States, 1950, National Security Affairs; Foreign Economic Policy*, vol. 1 (Washington, DC: Government Printing Office, 1977), Document 85, https://history.state.gov/historicaldocuments/frus1950v01/d85.

[67] A. W. Marshall, *Long-Term Competition with the Soviets: A Framework for Strategic Analysis*, R-862-PR (Santa Monica, CA: RAND, April 1972), vii.

[68] Andrew F. Krepinevich and Barry D. Watts, *The Last Warrior: Andrew Marshall and the Shaping of Modern American Defense Strategy* (New York: Basic Books, 2015), 122-23, 156, and 153-192 *passim*.

[69] National Security Decision Directive 75, "U.S. Relations with the USSR," January 17, 1983, CIA Reading Room, https://www.cia.gov/readingroom/docs/CIA-RDP97M00248R000401070001-8.pdf. On the elements of this strategy, see Seth G. Jones, *A Covert Action: Reagan, the CIA, and the Cold War Struggle in Poland* (New York: W. W. Norton, 2018); Celestine Bohlen, "Moscow Feels Hard-Currency Pinch," *Washington Post*, January 31, 1986, https://www.washingtonpost.com/archive/politics/1986/01/31/moscow-feels-hard-currency-pinch/7b52234c-57fa-47cc-b895-e0a0394c314c/.

competitive strategy, including China's own, has rarely relied on self-strengthening alone. Effective competitors also press on their rivals' weaknesses to constrain their power and shape their choices. Washington has at times invested heavily in its own strength, but it has done little to exploit Beijing's vulnerabilities in any kind of comprehensive or strategic fashion. Completing U.S. strategy is long overdue.

The Literature on China's Vulnerabilities

China's vulnerabilities are well documented, but historians and political scientists have produced far more diagnosis than prescription. The existing literature therefore helps flesh out this report's catalog of vulnerabilities, but it has not yet added up to a comprehensive strategy for deciding which to exploit, how, and to what end.

The expert literature has explored how specific vulnerabilities have shaped China's trajectory. Many scholars have focused on the nature of the regime. Historian Frank Dikötter, for example, homes in on regime paranoia. In this telling, the pathological quest for domestic stability, and its concomitant fear of "hostile foreign forces," prevents Beijing from "address[ing] an entire range of longstanding structural issues of its own making."[70] Susan Shirk's *China: Fragile Superpower* and *Overreach* diagnose a paradox at the heart of the CCP: "The more developed and prosperous the country becomes," Shirk writes, "the more insecure and threatened" the regime feels.[71] Minxin Pei's *China's Crony Capitalism* examines the corruption networks that corrode the regime's legitimacy, and Desmond Shum's *Red Roulette* describes how those networks operate and breed bureaucratic paralysis.[72]

Analysts have also looked at soft spots in China's economy. In *Red Flags*, George Magnus identifies four structural economic traps: debt, the renminbi, the middle-income trap, and demographics. Elizabeth Economy's *The Third Revolution* traces Xi's deepening of state economic control; Nicholas Lardy's *The State Strikes Back* shows how that deepening reversed more productive market reforms of previous decades; and Yasheng Huang's *The Rise and Fall of the EAST* traces how an autocracy obsessed with examinations, from the imperial *keju* to today, has stifled creative thought and

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[70] Frank Dikötter, *China After Mao: The Rise of a Superpower* (New York: Bloomsbury, 2022), 287-95.
[71] Susan L. Shirk, *China: Fragile Superpower* (New York: Oxford University Press, 2007), 5; Shirk, *Overreach: How China Derailed Its Peaceful Rise* (New York: Oxford University Press, 2022).
[72] Minxin Pei, *China's Crony Capitalism* (Cambridge, MA: Harvard University Press, 2016); Desmond Shum, *Red Roulette* (New York: Scribner, 2021).

innovation in exchange for control.[73] Michal Meidan has detailed China's oil and gas import dependence alongside long-standing fears about a "Malacca dilemma."[74] Nearly every major Washington think tank has documented China's semiconductor dependence.

Others have examined the PLA's weaknesses, some persisting despite its breakneck modernization and others created by it. Joel Wuthnow, Phillip Saunders, Toshi Yoshihara, and James Holmes, among others, have analyzed a range of PLA limitations in civil-military relations, force projection, logistics, joint integration, and maritime vulnerability beyond the first island chain.[75] Because military vulnerabilities are routinely assessed in U.S. military planning and intelligence work, this report focuses on the nonmilitary vulnerabilities that receive no comparable assessment. Taken together, this body of research has diagnosed many of the vulnerabilities that a strategy of competitive leverage could target.

A handful of policy studies have widened the literature's aperture to synthesize a range of China's vulnerabilities. The State Department's 2020 report *The Elements of the China Challenge* provides the U.S. government's most comprehensive public accounting, listing nine areas of concern from dependence on foreign technology and the dollar to corruption, internal-security costs, and succession uncertainty. The report aptly concludes that an "understanding of the CCP's vulnerabilities… must inform U.S. efforts to meet the China challenge."[76] However, it stops at diagnosis. Mark Cancian's 2021 CSIS report, *Inflicting Surprise*, comes closer to developing a program for exploiting China's vulnerabilities.[77] Cancian identifies eleven options across political, economic,

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[73] George Magnus, *Red Flags* (New Haven, CT: Yale University Press, 2018); Elizabeth C. Economy, *The Third Revolution* (New York: Oxford University Press, 2018); Nicholas R. Lardy, *The State Strikes Back* (Washington, DC: Peterson Institute for International Economics, 2019); Yasheng Huang, *The Rise and Fall of the EAST* (New Haven, CT: Yale University Press, 2023).

[74] Michal Meidan, testimony before the U.S.-China Economic and Security Review Commission, hearing on "China's Domestic Energy Challenges and Its Growing Influence over International Energy Markets," April 24, 2025, https://www.uscc.gov/sites/default/files/2025-04/Michal_Meidan_Testimony.pdf. The "Malacca dilemma" refers to Beijing's fear that in a conflict the U.S. military could close the Strait of Malacca, a key route for China's energy imports.

[75] Phillip C. Saunders et al., eds., *Chairman Xi Remakes the PLA* (Washington, DC: NDU Press, 2019); Toshi Yoshihara and James R. Holmes, *Red Star over the Pacific*, 2nd ed. (Annapolis, MD: Naval Institute Press, 2018).

[76] Policy Planning Staff, *The Elements of the China Challenge* (Washington, DC: U.S. Department of State, November 2020), https://2017-2021.state.gov/the-elements-of-the-china-challenge/.

[77] Mark F. Cancian, *Inflicting Surprise: Gaining Competitive Advantage in Great Power Conflicts* (Washington, DC: CSIS, January 2021), https://www.csis.org/analysis/inflicting-surprise-gaining-competitive-advantage-great-power-conflicts.

military, and diplomatic domains, but limits them to measures that would strategically surprise an adversary, in his case China or Russia. The report is a methodological step in the right direction, albeit one focused on a narrower set of circumstances.

A concurrent strand of literature has gone further in exploring how the United States could build leverage over its rivals. In 2020, Aaron Friedberg called for a containment-like defense paired with "a strong offensive component" that identified and exploited "the CCP regime's vulnerabilities instead of simply responding to its actions or trying to match its strengths."[78] Others have sought to revive the notion of competitive strategies.[79] In Thomas Mahnken's 2012 edited volume *Competitive Strategies for the 21st Century*, James Thomas and Evan Montgomery argued that a sound U.S. competitive strategy should play to America's advantages, shield its vulnerabilities, exploit its competitors' vulnerabilities, and shape an adversary's behavior by channeling its attention, effort, and resources toward the least threatening "actions and investments."[80]

Recent discussions of leverage have focused primarily on economics and technology.[81] Henry Farrell and Abraham Newman's 2019 theory of "weaponized interdependence" explained how a small subset of powerful states use their "jurisdiction" over global financial and informational networks, along with "appropriate domestic institutions," as coercive tools for strategic advantage. By September 2025, they were describing a "weaponized world economy" in which other powers, including America's rivals, were following Washington's lead in sharpening their own "weapons of economic and technological coercion."[82]

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[78] Aaron L. Friedberg, "An Answer to Aggression: How to Push Back Against Beijing," *Foreign Affairs*, September/October 2020, https://www.foreignaffairs.com/articles/china/2020-08-11/ccp-answer-aggression. For a more recent call to exploit the internal mechanisms of CCP control, mainly endemic corruption and strongman rule, see Nicholas Harrington, *A U.S. Campaign to Exploit Beijing's Weaknesses* (Washington, DC: CSIS, May 13, 2026), https://www.csis.org/analysis/us-campaign-exploit-beijings-weaknesses.

[79] Mahnken, *Competitive Strategies for the 21st Century*; Krepinevich and Watts, *The Last Warrior*, 166-68.

[80] James P. Thomas and Evan Braden Montgomery, "Developing a Strategy for Long-Term Sino-American Competition," in Mahnken, *Competitive Strategies for the 21st Century*, 257-74.

[81] Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Cambridge, MA: Belknap Press of Harvard University Press, 2016), argue that U.S. policymakers have too often relied on military force when geoeconomic tools would have served better.

[82] Henry Farrell and Abraham L. Newman, "Weaponized Interdependence," *International Security* 44, no. 1 (Summer 2019): 42-79; Farrell and Newman, "The Weaponized World Economy," *Foreign Affairs,* September/October 2025, https://www.foreignaffairs.com/united-states/weaponized-world-economy-farrell-newman.

Think tank studies have examined the limits and opportunities of economic pressure campaigns. In a pair of joint studies, the Atlantic Council and the Rhodium Group assessed first how the U.S. government could use economic pressure in a Taiwan crisis and second how China would likely retaliate. They found that broad G7 countermeasures against China's financial sector, its elite networks, and dual-use industries would put trillions of dollars in global trade and financial flows at risk, meaning any credible pressure campaign must be approached cautiously and targeted precisely at areas of Chinese economic dependence. The second study warned that this leverage is becoming a "wasting asset" as China builds up economic resilience against such pressure.[83]

Edward Fishman's 2025 book *Chokepoints: American Power in the Age of Economic Warfare* describes how U.S. policymakers turned asymmetric chokepoints, such as the U.S. dollar, advanced technology, and energy flows, against Iran, Russia, and China. In companion pieces, Fishman has counseled policymakers to "articulate clear objectives" when waging economic warfare and to weaponize chokepoints only when doing so will "impose asymmetric pressure."[84]

Emily Kilcrease's 2026 Center for a New American Security (CNAS) study, "Hit It with Your Best Shot: An American Doctrine of Economic Pressure," offers something closer to a rulebook. Drawing on 20 historical and contemporary cases, including embargoes, sanctions, technology controls, and aggressive trade measures, she extracts nine guiding principles for prudent economic coercion. Kilcrease urges policymakers to have a clear theory of victory, failure, and restraint before ever embarking on any such campaign, and to set left and right limits through legislation, annual reviews, and interagency planning guidance that balances flexibility with clearly defined boundaries.[85]

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[83] Charlie Vest and Agatha Kratz, "Sanctioning China in a Taiwan Crisis: Scenarios and Risks," Atlantic Council and Rhodium Group, June 21, 2023, https://www.atlanticcouncil.org/in-depth-research-reports/report/sanctioning-china-in-a-taiwan-crisis-scenarios-and-risks/; Logan Wright, Agatha Kratz, Charlie Vest, and Matt Mingey, "Retaliation and Resilience: China's Economic Statecraft in a Taiwan Crisis," Atlantic Council and Rhodium Group, April 1, 2024, https://www.atlanticcouncil.org/in-depth-research-reports/report/retaliation-and-resilience-chinas-economic-statecraft-in-a-taiwan-crisis/.
[84] Edward Fishman, *Chokepoints: American Power in the Age of Economic Warfare* (New York: Portfolio, 2025); also, Fishman, "How to Fight an Economic War," *Foreign Affairs*, May/June 2026, https://www.foreignaffairs.com/world/how-fight-economic-war-edward-fishman.
[85] Emily Kilcrease, *Hit It with Your Best Shot: An American Doctrine of Economic Pressure* (Washington, DC: Center for a New American Security, April 2026), https://www.cnas.org/publications/reports/hit-it-with-your-best-shot. Kilcrease's 2026 report builds on her earlier 2023 survey, *No Winners in This Game:*

This newer work has collectively advanced the discussion from diagnosing competitors' vulnerabilities to describing certain components of a strategy for exploiting them. But if Washington hopes to compete effectively, as strategic tradition and history suggest it must, it needs to go further still, with a body of work that examines the full range of China's pathologies, prescribes tools for exploiting them, and incorporates those tools into a broader effort to multiply U.S. strategic advantage. To that task we now turn.

Assessing the U.S. Playbook for Sanctioning China (Washington, DC: Center for a New American Security, December 1, 2023), https://www.cnas.org/publications/reports/no-winners-in-this-game.

Part II. Finding China's Pressure Points

Which of China's vulnerabilities are worth exploiting as a potential source of competitive leverage?

Part I argued that the United States needs a more coherent, deliberate strategy to exploit China's vulnerabilities. Part II carries that mission forward. Drawing on the full catalog in Annex A, it identifies the vulnerabilities most conducive to a strategy of competitive leverage and explains how we selected them.

Selection Criteria

To avoid a scattershot approach, which would risk escalation and dilute the effect of coordinated pressure, the United States needs a disciplined way to decide which vulnerabilities to target. Our research, interviews, and workshops first cast a wide net, producing a catalog of more than 50 of China's vulnerabilities spanning the economic, technological, political, social, informational, and diplomatic domains.[86] We then filtered the inventory through five criteria: leveragability, strategic importance, fixability, U.S. and allied exploitation feasibility, and acceptable risk. Each is described in turn.

This study brackets out purely military vulnerabilities, such as the PLA's operational, logistical, and joint-warfighting limitations, which are routinely assessed in U.S. military planning and intelligence work. Its focus is the nonmilitary sources of leverage that receive no comparable assessment. Corruption within the PLA, a political vulnerability, is addressed in Part III.

Leveragability. This criterion asks whether a weakness is actually a vulnerability: whether it is susceptible to external influence, and whether an outside actor could shape it in ways that produce competitive leverage. Many of China's weaknesses, as Annex A shows, are structural, internal, or otherwise beyond Washington's reach. China's demographic decline and local-government debt, for example, pose severe challenges for Beijing, but they will largely run their course and enervate Chinese power at their own pace regardless of what outsiders do. Spending finite competitive resources on

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[86] The authors conducted more than 25 lengthy individual interviews with current and former U.S. officials, private sector experts, and scholars, and convened workshops in Singapore, Tokyo, and Washington, D.C., between July and November 2025. Discussions were held on a not-for-attribution basis. The resulting catalog appears in Annex A.

weaknesses immune to external pressure would be like firing air-defense munitions at an aircraft already spiraling to the ground.

Strategic Importance. This criterion asks whether the resulting leverage would meaningfully advance U.S. interests, for example by strengthening deterrence, bolstering the U.S. and allied defense industrial bases, or degrading China's ability to threaten the United States and its partners. Arguably the best measure of this criterion is whether the vulnerability touches something China's leaders genuinely value. As Thomas Schelling observed, "[T]o exploit a capacity for hurting and inflicting damage one needs to know what an adversary treasures and what scares him."[87] If a vulnerability does not threaten something Beijing prizes, such as regime legitimacy, military modernization, economic growth, or social stability, pressing on it will do little to change Beijing's calculus. The regime's own policies reveal its priorities. Xi has spent his tenure trying to shore up China's fragilities, from corruption and domestic instability to reliance on exports. His drive for a "fortress economy," as the analyst Jimmy Goodrich terms it, insulating China's food and energy supply, supply chains, and financial stability from external shocks, advertises precisely where the regime feels brittle.[88] It also illuminates where American pressure is most likely to pay off. By accentuating these existing insecurities, the United States can compel Beijing to do more of what it is already doing, but at greater expense and with lesser effect, ideally diverting China's limited resources from more threatening pursuits.

Fixability. The most valuable targets are vulnerabilities Beijing will struggle to resolve without costly substitution, institutional change, or political tradeoffs that undermine the policies and practices that created them. Weighing fixability means assessing what Beijing has already done to address a vulnerability, what those efforts have cost and achieved, what it plans to do next, how quickly it could close the gap, and what obstacles stand in the way.

U.S. and Allied Exploitation Feasibility. Where leveragability asks whether a vulnerability can be influenced from outside, feasibility asks whether the United States and its partners can translate that potential into a usable policy instrument. Feasibility rests on three requirements. The first is whether the United States has the necessary policy tools, legal authorities, and public-private capabilities to act on a given vulnerability. The second is whether it has the discipline and expertise to build, apply,

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[87] Thomas C. Schelling, *Arms and Influence* (New Haven, CT: Yale University Press, 1966), 2-3.
[88] Jimmy Goodrich, "China's Fortress Economy," working paper, University of California Institute on Global Conflict and Cooperation, July 30, 2024, https://ucigcc.org/publication/chinas-fortress-economy/.

review, and adjust competitive leverage over time. The third is whether it can assemble the coalitions required, since few of these vulnerabilities can be pressed unilaterally and many run through Beijing's relationships with U.S. allies and partners. A vulnerability that falls short on any of these requirements may still be worth pursuing. It is simply not yet a usable source of leverage, and the U.S. government should begin developing the means to turn it into one.

Acceptable Risk. Given U.S.-China economic interdependence, the PLA's rapid military modernization, and Beijing's growing confidence in retaliating against U.S. pressure, some vulnerabilities may be too dangerous to touch. This criterion weighs the expected strategic gain against the potential costs. Three risks stand out. First, pressure may prove counterproductive by motivating China to remedy a weakness faster than Washington can capitalize on it. Second, some efforts may cross ethical lines or cast the United States as the aggressor, undermining its international standing and estranging partners it would need in a crisis. Blocking agricultural imports, for example, would inflict suffering on civilians. Third, pressure could provoke retaliation or escalation for which the United States is unprepared, particularly if it backs Beijing into a corner where its leaders see even extremely costly escalation as the only way out.

Applying the Criteria

Applying the criteria was more a structured judgment call than a mathematical exercise. We considered a quantitative scoring method but concluded it would add false precision without improving our understanding of which vulnerabilities matter most. Instead, drawing on the expert literature, interviews, and workshops, we assessed which vulnerabilities performed credibly enough across all five criteria to warrant deeper investigation. Surveying a wide field before narrowing it against criteria set in advance helped ensure analytical breadth.

This process yielded nine focus vulnerabilities: advanced technology dependence, dollar and financial exposure, energy import dependence, industrial input dependence, export market dependence, influence operations, sovereignty disputes, corruption, and the credibility gap. Each cleared all five criteria, though not all to the same degree, as Figure 1 shows. Several significant vulnerabilities did not make the list. China's dependence on imported food, especially soybeans for animal feed, is substantial, but deliberately restricting a population's food supply would cross the ethical line described above. Demographic decline, weak household consumption, and an undereducated rural workforce pose serious long-term problems for Beijing but offer little purchase for outside pressure. Other vulnerabilities are folded into the focus vulnerabilities they reinforce. China's reliance on foreign aerospace components,

machine tools, and industrial software, and its struggle to retain top scientific talent, are treated as part of its advanced technology dependence. We do not claim this is the final word. Vulnerabilities will wax and wane in importance, and we encourage future analysts to revisit the list.

Categorizing Vulnerabilities

With the nine focus vulnerabilities identified, the next question is how to organize them. One method would be to group them by domain, which is useful for dividing fields of study and expertise. That is how the full catalog in Annex A is organized. For the key vulnerabilities we examine in the context of the United States building and using competitive leverage, we assessed that it would be more valuable for policymakers and strategists to consider the type of liability or problem that each creates for Beijing. Doing so produced three broad types: external dependencies, strategic overextension, and inherent contradictions. These types are organizing devices, and some vulnerabilities fit into more than one.

External dependencies are China's external exposures: the inputs, goods, services, markets, and networks China needs but does not control, many of which are supplied by the United States, its allies, and aligned countries. They include energy, food, capital, advanced technology, critical industrial inputs, and access to foreign markets. As a result, these dependencies can be restricted, withheld, or credibly threatened, giving suppliers potential leverage over Beijing. Xi's decade-long drive for self-reliance reveals how much Beijing worries about them.[89]

Strategic overextension refers to China's self-inflicted liabilities: the costs Beijing incurs when its external ambitions outrun its resources, credibility, or capacity to sustain them. They include activities that violate other countries' sovereignty, as well as China's growing web of overseas economic commitments. Beijing has worked assiduously to avoid the kinds of foreign entanglements that have drained great powers historically, yet its economic and political imperatives continue to draw it into efforts abroad that leave it exposed. Outside pressure can raise the price of these efforts, forcing harder

[89] Xi Jinping, "Certain Major Issues for Our National Medium- to Long-Term Economic and Social Development Strategy," *Qiushi*, October 31, 2020, trans. Center for Security and Emerging Technology, https://cset.georgetown.edu/wp-content/uploads/t0235_Qiushi_Xi_economy_EN-1.pdf. In the speech, Xi called for "tightening international production chains' dependence on China" and reducing China's own exposure to foreign supply cutoffs.

tradeoffs, creating incentives in Beijing to curb certain malign activities, and diverting resources from more threatening pursuits.

Inherent contradictions are the gaps between what the Chinese Communist Party claims to be and what it is, gaps that surface both at home and abroad. They arise from promises of good governance that China's brittle, extractive institutions are unable or unwilling to fulfill. They include pervasive corruption and the distance between Beijing's portrayal of China as a benign, responsible power and its conduct at home and abroad. Xi's sweeping anti-corruption campaign and the regime's heavy investment in censorship and propaganda reveal how seriously Beijing takes these gaps. The United States cannot and should not manufacture China's domestic problems. It can, however, expose the divide between Beijing's claims and its conduct with verified evidence that is hard to suppress. Doing so would force the regime to spend more effort defending its legitimacy at home and blunt its influence abroad, including its information warfare against the United States.

Figure 1 describes our report's nine focus vulnerabilities, their vulnerability type, and judgments related to the five-part criteria.

Figure 1. The Nine Focus Vulnerabilities and Their Criteria Justification

Vulnerability	Type	Leverageable	Importance	Fixable	Exploitation Feasibility	Risk
Advanced Technology Dependence	Dependency	High	High	Low-Med	High	Med-High
Dollar and Financial Exposure	Dependency	High	High	Low	Med-High	High
Energy Import Dependence	Dependency	Medium	High	Medium	Medium	High
Industrial Input Dependence	Dependency	Medium	High	Low-Med	Medium	Med-High
Export Market Dependence	Dependency	High	High	Low-Med	Med-High	Med-High
Sovereignty Disputes	Overextension	High	High	Low	Med-High	Med-High
Influence Operations	Overextension	High	Med-High	Low	Medium	Low-Med
Credibility Gap	Contradiction	High	Med-High	Low	Medium	Low
Corruption	Contradiction	Medium	High	Low	Med-High	Low-Med

Note: Ratings are structured assessments by the authors based on their external research. These are not numerical scores. Fixability is judged from Beijing's perspective (i.e., "Low" means Beijing would find the vulnerability hard to resolve, a preferred outcome for the United States).

Part III examines each of these nine vulnerabilities in turn, along with the policy tools best suited to turning each into leverage.

Part III. Stressing China's Fault Lines

How can Washington exploit China's vulnerabilities for competitive leverage?

This part examines each of the nine focus vulnerabilities in turn: what it is, how it arose, why it matters to Beijing, and why it is hard to resolve. Each assessment then offers a prescription for how Washington could turn the vulnerability into competitive leverage, the likely effect on Beijing, and the attendant risks. The vulnerabilities are grouped by type, beginning with external dependencies, followed by strategic overextension and inherent contradictions. Figure 2, at the end of this part, summarizes recommended instruments, effects, and risks for all nine.

Vulnerability Type I: External Dependencies

China's rise was built on integration with the global economy, and that integration has left it reliant on foreign technology, finance, energy, raw materials, and markets. Beijing has spent more than a decade trying to reduce these dependencies, with mixed results. It has made real progress in some areas, such as energy security and mature-node chipmaking, but remains deeply exposed in others, and many of its most important suppliers and customers are U.S. allies and partners. This section examines five dependencies, beginning with advanced technology, where Washington has already built and tested the tools of leverage, and continuing with the dollar, energy, industrial inputs, and export markets.

Advanced Technology Dependence

Description

Among China's many external dependencies, none may be more consequential than its reliance on foreign advanced semiconductors. Leading-edge chips are critical to China's efforts to build and deploy the AI systems, precision weapons, and offensive cyber tools that anchor its military modernization and technological self-sufficiency campaigns. They are equally important to China's climb up the value chain toward the high-margin industries on which its economic future depends. And because advanced chips supply the computing power behind frontier AI, the prospect of recursive self-improvement, in which AI systems autonomously enhance their own capabilities, could turn any early lead in computing power into a lasting and decisive advantage.

China's efforts to develop advanced indigenous semiconductors have been significantly hampered because the industry's critical nodes lie firmly outside Beijing's control, with U.S. and allied firms dominating each stage of production. American firms design the

most advanced chips and capture roughly half of the industry's global revenue.[90] Taiwan dominates leading-edge fabrication; the Dutch firm ASML holds a monopoly on extreme-ultraviolet lithography; Japan controls more than two-thirds of the world's photoresist supply.[91] China has become a major producer of legacy chips, but at the frontier it remains heavily dependent on foreign chokepoints. In 2025, China accounted for about $49 billion, or more than a third, of the $135 billion in global chipmaking equipment billings reported by Semiconductor Equipment and Materials International (SEMI). This continued reliance on foreign imports is an important indicator of how far it remains from self-sufficiency.[92]

Beijing itself has cataloged its exposure with revealing candor. In spring 2018, after the U.S. Commerce Department cut off ZTE, one of China's leading telecommunications equipment makers, from U.S. components for violating sanctions on Iran and North Korea, *Science and Technology Daily*, the official newspaper of China's Ministry of Science and Technology, published a series identifying 35 "stranglehold technologies" for which China depended on foreign suppliers.[93] Semiconductors and chipmaking featured prominently, from lithography machines and photoresists to high-end chips.

China's dependency at the frontier will be difficult for Beijing to resolve. China cannot reliably produce chips below seven nanometers at scale, due in part to its lack of access to ASML's EUV lithography machines. Its most advanced fabrication lines still depend overwhelmingly on foreign tools from ASML, Applied Materials, Lam Research, and

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[90] Semiconductor Industry Association, *2026 State of the U.S. Semiconductor Industry* (Washington, DC: Semiconductor Industry Association, 2026), 8, https://www.semiconductors.org/wp-content/uploads/2026/07/SIA_2026_State-of-the-Semiconductor-Industry.pdf. U.S.-headquartered firms recorded $425 billion in semiconductor sales in 2025, 53 percent of the global market and the highest U.S. share since 1984.

[91] Christopher S. Chivvis et al., *Legacy or Liability? Auditing U.S. Alliances to Compete with China* (Washington, DC: Carnegie Endowment for International Peace, October 8, 2025), https://carnegieendowment.org/research/2025/10/legacy-or-liability-auditing-us-alliances-for-competition-with-china. Estimates of Japan's share of the global photoresist market range from roughly two-thirds to 90 percent, depending on the product category.

[92] SEMI, "Global Semiconductor Equipment Billings Reached $135 Billion in 2025, Up 15% Year-on-Year," press release, April 7, 2026, SEMI Press Room, https://www.semi.org/en/SEMI-Reports-Global-Semiconductor-Equipment-Billings-Reached-135-Billion-in-2025.

[93] *Science and Technology Daily*, series on "chokepoint" technologies, April-July 2018, translated and cataloged in Ben Murphy, *Chokepoints: China's Self-Identified Strategic Technology Import Dependencies* (Washington, DC: Center for Security and Emerging Technology, May 2022), https://cset.georgetown.edu/publication/chokepoints. The 35 items were technologies such as lithography machines, operating systems, photoresists, high-end sensors, industrial software, and aero-engine components.

Tokyo Electron. And U.S. and allied restrictions on supplying and servicing that equipment threaten to leave more of China's chipmaking infrastructure outdated or inoperable over time.[94]

The same holds across the rest of the supply chain. The electronic design automation (EDA) software used to design and validate advanced chips comes almost entirely from Synopsys, Cadence, and Siemens. No Chinese alternative can yet design leading-edge chips. China also cannot yet produce high-purity materials and photoresists at the required quality and scale. Even its strong performance in AI software is constrained by hardware: its developers have relied heavily on Nvidia and AMD processors, both subject to U.S. export restrictions, and domestic alternatives such as Huawei's Ascend chips still lag in performance and supply. In sum, China remains dependent on, and thus vulnerable to foreign control of, cutting-edge fabrication equipment, lithography, EDA software, and frontier computing hardware.[95]

China's technology sector lags the United States in key platforms and tools, but Beijing is racing to close the gap. Domestic firms have expanded mature-node output and built increasingly capable manufacturing equipment, and China's open-source AI models now rival leading U.S. systems.[96] Beijing is even making progress against the most formidable chokepoint of all: EUV lithography. In December 2025, Reuters reported that a Shenzhen team including former ASML employees had built a prototype EUV machine capable of generating the light needed to make advanced chips, though it had

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[94] Allen, *Understanding the Biden Administration's Updated Export Controls*; Antonio Varas et al., *Strengthening the Global Semiconductor Supply Chain in an Uncertain Era* (Boston Consulting Group and Semiconductor Industry Association, April 2021), https://www.semiconductors.org/wp-content/uploads/2021/05/BCG-x-SIA-Strengthening-the-Global-Semiconductor-Value-Chain-April-2021_1.pdf.

[95] On the concentration of electronic design automation among Synopsys, Cadence, and Siemens EDA, and on materials and equipment dependencies more broadly, see Dylan Butts, "U.S. Lifts Chip Software Curbs on China in Sign of Trade Truce," *CNBC*, July 2, 2025, https://www.cnbc.com/2025/07/03/us-lifts-chip-software-curbs-on-china-amid-trade-truce-synopsys-says-.html. On the performance, software, and supply constraints facing Huawei's Ascend chips, see Gregory C. Allen, "DeepSeek: A Deep Dive," CSIS, April 8, 2025, https://www.csis.org/analysis/deepseek-deep-dive.

[96] Stanford Institute for Human-Centered Artificial Intelligence, *Artificial Intelligence Index Report 2026* (Stanford, CA: Stanford HAI, 2026), https://hai.stanford.edu/ai-index/2026-ai-index-report. The report finds that the performance gap between leading U.S. and Chinese models narrowed to roughly 2.7 percent on the LMArena leaderboard by March 2026, from 17.5 to 31.6 percent across major benchmarks in May 2023. On open-weight models, see Jack Edwards and Luke Emberson, "Open Models Lag State-of-the-Art Closed Models by 4 Months," Epoch AI, May 29, 2026, https://epoch.ai/data-insights/open-closed-eci-gap, which finds that since January 2026 the most capable open-weight models have trailed frontier closed models by about four months on average.

yet to produce working chips. Beijing reportedly aims to begin production with the machine by 2028, with more realistic timelines stretching to 2030.[97]

A working prototype built partly from older foreign components remains a long way from an indigenous tool that can produce chips reliably and at volume. A 2026 study by Nicholas Brown and Saif Khan concludes that China is unlikely to produce lithography tools capable of making competitive AI chips at meaningful scale before the mid-2030s, and EUV tools later still. Chinese firms are rapidly closing the gap in other chipmaking equipment, such as etching and deposition tools, but lithography is likely to be the last tool China indigenizes.[98] Narrowing these gaps also depends on foundational science, where China remains weaker than its scale suggests. Chinese institutions lead the world in scientific publications, but only about 7 percent of China's research and development spending goes to basic research, roughly half the share in the United States.[99] More broadly, despite China's recent progress, many of the gaps it wants to close require hardware and infrastructure it will struggle to buy or build on its own. This external dependency directly threatens Beijing's technological ambitions, with knock-on effects for its military and economic power. It is also a structural vulnerability the United States and its allies are uniquely positioned to influence, control, and weaponize as a source of competitive leverage.

China's technological ambitions also depend on people. Many of the most capable Chinese students and researchers in AI and semiconductors have trained and stayed abroad. Beijing treats this outflow as a strategic problem. It has expanded recruitment programs to lure scientists home and increasingly restricts the travel of researchers in sensitive fields, reportedly advising leading AI researchers to avoid trips to the United States and collecting the passports of some employees at top AI firms.[100] U.S. policy has

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[97] Fanny Potkin, "How China Built Its 'Manhattan Project' to Rival the West in AI Chips," *Reuters*, December 17, 2025, https://www.reuters.com/world/china/how-china-built-its-manhattan-project-rival-west-ai-chips-2025-12-17/; Noah Tan, "China's EUV Lithography Progress: Parsing Signal From Noise," *The Diplomat*, July 2, 2026, https://thediplomat.com/2026/07/chinas-euv-lithography-progress-parsing-signal-from-noise/.

[98] Nicholas Brown and Saif M. Khan, "DUV Immersion Lithography: The Foundation of the US AI Advantage," Center for Technology & Statecraft, September 26, 2026, https://techstatecraft.org/duv/.

[99] National Science Board, *Science and Engineering Indicators 2026* (Alexandria, VA: National Science Foundation, 2026), https://ncses.nsf.gov/indicators; National Bureau of Statistics of China, *Statistical Communiqué on National Expenditures on Science and Technology in 2024* (Beijing: NBS, 2025), https://www.stats.gov.cn/english/.

[100] "China Tells Its AI Leaders to Avoid U.S. Travel over Security Concerns, WSJ Reports," *Reuters*, March 1, 2025, https://www.reuters.com/world/china-tells-its-ai-leaders-avoid-us-travel-over-security-concerns-wsj-reports-2025-03-01/.

at times eased Beijing's human capital problem. Broad investigations of Chinese researchers and tighter visa rules in recent years have pushed some scientists back to China, including some working in AI and semiconductors.[101]

Semiconductors are the most consequential of China's technology dependencies, but other key sectors follow a similar pattern in offering comparable opportunities for leverage. Aerospace is among the most significant. China's commercial aviation ambitions rest heavily on Western technology. Its flagship C919 airliner relies on engines from CFM International, a joint venture of GE Aerospace and France's Safran, along with U.S. and European avionics and flight-control systems. China's domestic engines remain years from matching Western models. When Washington briefly suspended licenses for C919 engines and parts during trade negotiations in 2025, it demonstrated how this dependence can be turned into leverage.[102]

Enabling technologies follow a similar pattern. China's manufacturers rely heavily on Japanese, German, and other foreign suppliers for high-precision machine tools, and its laboratories and production lines depend on imported high-end scientific instruments and specialty materials. Chinese firms also rely on industrial design and simulation software from Western companies such as Siemens and Dassault Systèmes to engineer products from jet engines to automobiles. Despite heavy state support, domestic suppliers still trail foreign competitors in precision and reliability, and many Chinese firms continue to buy foreign products. Several of these technologies, including aviation design software and electron microscopes, appeared on Beijing's 2018 list of stranglehold technologies.[103]

Prescription

Of China's many vulnerabilities, advanced semiconductors are among the most feasible and highest-leverage to exploit, as Washington has already shown. Technology controls have been one of the few means through which the United States has pressed Beijing's weaknesses, and the tools have been tested: entity listings, export controls on advanced chips and chipmaking equipment, and the extraterritorial Foreign Direct Product Rule, which extends U.S. controls to certain foreign-made items produced with American

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[101] Yu Xie, Xihong Lin, Ju Li, Qian He, and Junming Huang, "Caught in the Crossfire: Fears of Chinese-American Scientists," *Proceedings of the National Academy of Sciences* 120, no. 27 (2023), https://doi.org/10.1073/pnas.2216248120.
[102] "US Suspends Sales of Some US Technologies to China's Airplane Maker COMAC," Reuters, May 28, 2025, https://www.reuters.com/business/aerospace-defense/us-suspends-sales-some-us-technologies-chinas-airplane-maker-comac-2025-05-28/.
[103] Ben Murphy, *Chokepoints: China's Self-Identified Strategic Technology Import Dependencies*.

technology or software. The key design, equipment, and component chokepoints also remain concentrated in the hands of the United States and its closest partners. The real question is whether Washington will act purposefully to widen these controls, enforce them credibly, close gaps among agencies and allies, and lock them in place.

Some critics charge that the Biden administration's "small yard, high fence" controls accelerated China's drive for technological self-reliance at the expense of U.S. companies' revenues.[104] But that conclusion misses the bigger picture. Beijing had already resolved to indigenize its technology base, as Made in China 2025 made clear a decade ago. The controls may have validated and reinforced that drive, but they also forced China to pursue it on worse terms, spending more money, time, and effort to reproduce what its companies once bought abroad at a bargain. The evidence suggests this is working. Although China has poured more than $150 billion into a Manhattan Project–scale effort to indigenize its supply chain, its advanced chips still lag several generations behind the frontier in scale, yield, and performance.[105] By one estimate, the United States and its allies now hold roughly a 50-fold advantage over China in producing AI computing power.[106] And even where Chinese AI models approach the frontier, constrained access to advanced chips limits how widely and quickly China can deploy and scale them.

More must be done to strengthen these controls. Washington should treat the measures now on the books as a baseline and build from there. China continues to acquire restricted chips and equipment through subsidiaries, firms not on the Entity List, shell companies, and smuggling networks, and to keep older fabrication tools running through servicing arrangements. Its firms also tap U.S. computing power through cloud services and use model distillation to approximate frontier AI capabilities with far less hardware.[107] New measures should close as many of these escape routes as possible.

The most urgent priority is synchronizing U.S. export restrictions with those of the Netherlands and Japan, home to ASML and Tokyo Electron, which control several of

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[104] Sullivan, "Remarks on Renewing American Economic Leadership." For the critique, see, for example, Nvidia CEO Jensen Huang's May 2025 remarks calling U.S. export controls "a failure," reported in "Nvidia CEO Praises Trump Move to Scrap Some AI Export Curbs," *Reuters*, May 21, 2025, https://www.reuters.com/world/china/nvidia-says-us-export-controls-ai-china-were-a-failure-2025-05-21.

[105] On China's chip investment, see Potkin, "How China Built Its 'Manhattan Project.'"

[106] Brown and Khan, "DUV Immersion Lithography," 6.

[107] Tim Fist and Erich Grunewald, *Preventing AI Chip Smuggling to China* (Washington, DC: Center for a New American Security, October 2023), https://www.cnas.org/publications/reports/preventing-ai-chip-smuggling-to-china.

the industry's most critical chokepoints in lithography and fabrication equipment. Both governments began tightening their own restrictions in 2023, but their controls on equipment sales, servicing, and subcomponent exports to Chinese fabs remain narrower than Washington's.[108] By one estimate, Chinese companies have used those gaps to stockpile more than 330 advanced lithography systems capable of producing Huawei's AI chips.[109] The United States should press The Hague and Tokyo to close this gap. If diplomacy fails, Washington should invoke the Foreign Direct Product Rule to restrict those firms' products that incorporate U.S. technology, accomplishing unilaterally what coordination could not, even at the cost of friction with two close allies.[110]

At the same time, Congress should codify stronger export restrictions to prevent any administration from trading away this decisive advantage for ephemeral gains. In 2025, Washington imposed licensing requirements on EDA software sales to China, then lifted them weeks later during trade negotiations.[111] Nor would codification be without precedent. Under the Countering America's Adversaries Through Sanctions Act (CAATSA), Congress subjected any lifting of Russia sanctions to congressional review, and the same mechanism could govern any relaxation of advanced technology controls.[112]

Washington should also widen the controls' reach. The rule extending Entity List restrictions to affiliates of listed firms, suspended since November 2025, would capture the fabrication cutouts in Huawei's ecosystem and should be allowed to take effect.[113]

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[108] Government of the Netherlands, "The Netherlands Expands Export Control Measure for Advanced Semiconductor Manufacturing Equipment," September 6, 2024, https://www.government.nl/latest/news/2024/09/06/the-netherlands-expands-export-control-measure-advanced-semiconductor-manufacturing-equipment; "Japan's New Chip Equipment Export Rules Take Effect," Hogan Lovells Cadwalader, August 17, 2023, https://www.hlc.com/en/publications/japans-new-chip-equipment-export-rules-take-effect.

[109] Brown and Khan, "DUV Immersion Lithography," 8.

[110] 15 C.F.R. § 734.9; Bureau of Industry and Security, "Export Administration Regulations: Amendments to General Prohibition Three (Foreign-Produced Direct Product Rule)," 85 Fed. Reg. 29849 (May 19, 2020).

[111] Karen Freifeld, "US Curbs Chip Design Software, Chemicals, Other Shipments to China," Reuters, May 29, 2025, https://www.reuters.com/world/china/trump-tells-us-chip-designers-stop-selling-china-ft-reports-2025-05-28/; "Tech War: US Lifts Export Control of Chip Design Software to China," *South China Morning Post*, July 3, 2025, https://www.scmp.com/tech/policy/article/3316742/tech-war-us-lifts-export-control-chip-design-software-china.

[112] Countering America's Adversaries Through Sanctions Act, Pub. L. No. 115-44, § 216, 131 Stat. 886 (2017).

[113] Bureau of Industry and Security, "Expansion of End-User Controls to Cover Affiliates of Certain Listed Entities," interim final rule, 90 Fed. Reg. 47201 (September 30, 2025); on its suspension under the November 2025 U.S.-China arrangement, see Bureau of Industry and Security, "One Year Suspension of

And EDA software, which chipmakers rely on to design and validate cutting-edge chips before fabrication, should face industry-wide restrictions that close the gaps left by firm-by-firm controls.

Sustained, tighter controls would force Beijing to keep diverting capital and talent toward replicating what it cannot buy, slow the diffusion of advanced AI into the PLA, and give Washington a credible lever it can tighten or relax in response to Chinese behavior.

Alongside export controls, Washington should consider options, including on visa policy, that enable top Chinese graduates and researchers in AI, semiconductors, and other critical fields to study, work, and remain in the United States. Any such policy should ensure that American students and experts are not displaced in the process. Sound policy also means taking espionage threats seriously while distinguishing them from the ambitions of researchers who want to build careers in the United States. Washington should strengthen intelligence and law enforcement efforts against China's organized operations that target U.S. technology, and it should make the rules transparent, with clear guidance on which fields and institutions require additional vetting and what conduct crosses legal lines. Overly broad investigations that drive away legitimate researchers push talent back to China.

The logic of technology denial applies to China's other technology dependencies, though not all of them call for immediate restrictions. Some are better held in reserve and deployed when circumstances warrant. Aerospace is a case in point. The 2025 suspension of C919 engine licenses demonstrated its potency, though Washington reversed course within weeks as part of trade negotiations. Making the lever credible will require coordination with France, given Safran's role in producing the C919's engines, and with Europe more broadly, since Airbus could otherwise stand to fill any gap left by U.S. suppliers.

Enabling technologies are another. Leverage in these areas is more diffuse than in lithography, and restricting new sales alone would take years to have a significant effect, since installed machines can run for decades. The fastest-acting levers are servicing, spare parts, and software licenses and updates, which reach the equipment and programs China already uses. Washington should work with allies to identify where their firms hold the strongest positions and prepare coordinated restrictions that can be tightened over time or imposed in a crisis. As with aerospace, the lever depends

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Expansion of End-User Controls for Affiliates of Certain Listed Entities," final rule, 90 Fed. Reg. 50857 (November 12, 2025).

on a European partner, in this case Germany, home to many of the world's leading machine-tool makers.

The risks of stricter control regimes are real but manageable. Tighter controls may further spur China's drive for self-reliance, but as noted above, Beijing would pursue that goal regardless, and controls force it to do so more slowly and at greater cost. The more serious risk is retaliation. As 2025 showed, Beijing can respond by tightening its rare-earth controls. Managing that risk requires weighing technology controls alongside the other forms of leverage in this report, which together can blunt Beijing's counter-leverage and deter rapid escalation, a question Part IV takes up.

Dollar and Financial Exposure

Description

The U.S. dollar touches nearly every dimension of China's international economic activity. Access to dollars remains a precondition for trade on China's scale, which makes the dollar one of Beijing's most significant and exploitable external dependencies. Nearly 70 percent of China's goods trade is dollar-denominated or passes through dollar-based financial institutions. China carries around $900 billion in dollar-denominated debt, roughly 40 percent of its total external debt, and an estimated half of its foreign exchange reserves are held in dollars. Dollar dominance perpetuates itself through powerful network effects, as exporters invoice in dollars, firms hold them, financial institutions clear transactions in them, and central banks keep them in reserve. And because dollar transactions ultimately clear through U.S. banks and correspondent accounts, Washington controls access to the system. If China wants to trade with most of the world, it must operate inside a system built on its foremost rival's currency.[114]

Beijing has long sought to reduce this dependency by internationalizing its currency, the renminbi, with partial success. China's Cross-Border Interbank Payment System (CIPS) offers an alternative to dollar clearing, and it helped blunt the effect of U.S. and allied sanctions on Sino-Russian trade after Russia's February 2022 invasion of Ukraine.[115] Yet these workarounds remain limited. According to the IMF, the renminbi

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[114] Gerard DiPippo and Andrea Leonard Palazzi, *It's All About Networking: The Limits of Renminbi Internationalization* (Washington, DC: CSIS, April 2023), https://www.csis.org/analysis/its-all-about-networking-limits-renminbi-internationalization.

[115] Barry Eichengreen, "Sanctions, SWIFT, and China's Cross-Border Interbank Payments System," CSIS Briefs, CSIS, May 20, 2022, https://www.csis.org/analysis/sanctions-swift-and-chinas-cross-border-interbank-payments-system; Pascal van der Straeten, "SWIFT and CIPS: Finance as the New Global

accounts for less than 2 percent of global foreign exchange reserves and a small share of international payments, leaving China still heavily reliant on the dollar-based financial system.[116]

That does not mean Beijing is without options. One path to reserve-currency status would be to loosen capital controls and enact legal and institutional reforms that would reassure foreign investors. But the Party has consistently resisted those steps for fear of weakening its grip on the financial system and the economy. The last time Beijing loosened its hold on the currency, following the August 2015 renminbi devaluation, roughly $1 trillion fled China over the next year and a half, and only aggressive state intervention stemmed the outflow.[117] China's leaders do not want a repeat, which effectively forecloses genuine internationalization of the renminbi. This is the core dilemma. China cannot run a tightly controlled financial system and a globally trusted reserve currency at the same time.[118] For the foreseeable future, de-dollarization will remain more aspiration than reality.

Other fragilities in China's financial system make that dilemma even harder to escape. Local-government financing vehicles hold an estimated $9 trillion in debt, which the central government has been reluctant to assume.[119] The property sector, which together with related industries once accounted for 25 to 30 percent of China's GDP, has sharply contracted, as the collapse of Evergrande, Country Garden, and other major developers

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Battleground," *The Interpreter*, Lowy Institute, March 10, 2026, https://www.lowyinstitute.org/the-interpreter/swift-cips-finance-new-global-battleground.

[116] International Monetary Fund, "IMF Data Brief: Currency Composition of Official Foreign Exchange Reserves," March 27, 2026, https://data.imf.org/en/news/imf%20data%20brief%20march%2027; on the renminbi's share of international payments, see SWIFT, *RMB Tracker*, https://www.swift.com/rmb-tracker-global-currency-tracker.

[117] Ken Brown, "Hundreds of Billions of Dollars Have Fled China. Now What?," *Wall Street Journal*, January 28, 2016, https://www.wsj.com/articles/hundreds-of-billions-of-dollars-have-fled-china-now-what-1454017955; "Dollars and Renminbi Flowed Out of China," *BIS Quarterly Review*, Bank for International Settlements, March 2016, 26-27, https://www.bis.org/publications/dollars-and-renminbi-flowed-out-china. On continued capital outflows since 2016, see Jason Douglas and Rebecca Feng, "The Quarter-Trillion-Dollar Rush to Get Money Out of China," *Wall Street Journal*, October 23, 2024, https://www.wsj.com/world/china/china-economy-capital-flight-2ba6391b.

[118] Eswar S. Prasad, *Gaining Currency: The Rise of the Renminbi* (New York: Oxford University Press, 2016).

[119] Tom Hancock et al., "China's LGFV Insiders Say $9 Trillion Debt Problem Is Worsening," *Bloomberg*, August 23, 2023, https://news.bloomberglaw.com/banking-law/chinas-lgfv-insiders-say-9-trillion-debt-problem-is-worsening; Jean C. Oi et al., "A Perfect Storm: Fiscal Discipline, COVID, and Local Government Debt in China," *China Journal* 93 (January 2025), https://aparc.fsi.stanford.edu/publication/perfect-storm-fiscal-discipline-covid-and-local-government-debt-china.

illustrates.[120] These fragilities make liberalizing China's capital account even riskier, leaving its economy tethered to a global financial system that its rival is uniquely positioned to control and weaponize.

Prescription

China's dollar dependence gives the United States one of its most powerful sources of leverage. That power stems from how thoroughly the dollar has penetrated China's economy. Beijing's financial system, external trade, and the offshore wealth of its elites are deeply enmeshed in dollar channels controlled by Washington and its partners. Sweeping restrictions on China's dollar access could trigger debt defaults, a currency crisis, and cascading instability across its economy.

Washington has a range of options along the escalation ladder, from sanctioning individual officials and firms to cutting China's largest banks off from the dollar entirely. At the lower end, it could target specific entities and small lenders with limited ties to the broader financial system, as it did in 2012 when it cut off Bank of Kunlun for facilitating transactions with Iran.[121] Further up, it could sanction Chinese banks that support PLA activities or restrict dollar transactions in sectors central to China's military buildup, such as shipbuilding, aerospace, and semiconductors. It could also warn banks worldwide that supporting China's military-industrial base would expose them to secondary sanctions, as it did with Russia in 2024.[122] At the top of the ladder sits what is often called the "financial nuclear weapon," designating China's five largest banks and the People's Bank of China as Specially Designated Nationals (SDNs) under

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[120] On peak housing figures, see Kenneth S. Rogoff and Yuanchen Yang, "Peak China Housing," National Bureau of Economic Research, Working Paper No. 27697 (Cambridge, MA: National Bureau of Economic Research, August 2020), https://www.nber.org/papers/w27697. On the Evergrande collapse and China's property crisis, see Michael D. Sutherland and Karen M. Sutter, "Evergrande Group and China's Debt Challenges," In Focus IF11953, Congressional Research Service, May 12, 2026, https://www.congress.gov/crs-product/IF11953; "China Tries to Look Past the Property Slump," *Economist*, September 3, 2026, https://www.economist.com/finance-and-economics/2026/09/03/china-tries-to-look-past-the-property-slump; Thomas Hale and William Sandlund, "Evergrande Delisting Marks End of Era for China's Property Sector," *Financial Times*, August 25, 2025, https://www.ft.com/content/1b11a168-8a19-4ba2-ab5d-b51fcf3bed1e.

[121] U.S. Department of the Treasury, "Treasury Sanctions Kunlun Bank in China and Elaf Bank in Iraq for Business with Designated Iranian Banks," press release, July 31, 2012, https://home.treasury.gov/news/press-releases/tg1661.

[122] U.S. Department of the Treasury, Office of Foreign Assets Control, "Sanctions Advisory: Updated Guidance for Foreign Financial Institutions on OFAC Sanctions Authorities Targeting Support to Russia's Military-Industrial Base," June 12, 2024, https://ofac.treasury.gov/media/932436/download.

U.S. sanctions authorities.[123] Such measures would block their property within U.S. jurisdiction and prohibit U.S. persons from dealing with them, absent authorization.[124] They could also immobilize Chinese central bank reserves held in U.S. jurisdiction, much as the United States and its partners did with roughly $300 billion in Russian reserves in 2022.[125] The right choice will depend on the circumstances, but having the full range prepared in advance is what gives each option its force.

Together, these options should send an unambiguous signal to Beijing that certain extraordinary actions against core U.S. interests could trigger financial consequences China's economy cannot sustain. The most severe measures should be held in reserve, and Washington must make clear that only severely destabilizing acts would trigger them, such as large-scale cyberattacks on critical U.S. infrastructure, Chinese export restrictions that seriously imperil the U.S. economy, or an armed attack against the U.S. homeland or U.S. allies and partners. Washington must also rally allied financial centers around agreed-upon thresholds. The Russia precedent shows why: most of the frozen Russian reserves were held in Europe, so the measure depended on allied action. Without that coordination, Beijing could arbitrage between jurisdictions; with it, Beijing would face a united front.[126]

This tool carries a serious risk of self-harm. Major financial action against China's largest banks would send shock waves well beyond Beijing, potentially destabilizing the global financial system and exposing U.S. and allied firms to retaliation from China and its partners. As Edward Fishman argues in *Chokepoints*, "effective sanctions against other great powers are possible only if America is willing to accept real economic risks."[127] Those risks should not rule out exploiting this vulnerability. If anything, they reinforce the need to develop the tool in advance, so that the United States can act decisively without paralyzing its own economy, forcing allies into impossible choices, or precipitating a global recession.

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[123] French finance minister Bruno Le Maire described cutting Russia off from SWIFT as a "nuclear financial weapon." See Sheelah Kolhatkar, "Will Sanctions Against Russia End the War in Ukraine?," *New Yorker*, October 24, 2022, https://www.newyorker.com/magazine/2022/10/31/will-sanctions-against-russia-end-the-war-in-ukraine.
[124] U.S. Department of the Treasury, Office of Foreign Assets Control, "Frequently Asked Questions: Basic Information on OFAC and Sanctions," https://ofac.treasury.gov/faqs.
[125] U.S. Department of the Treasury, "Russian Elites, Proxies, and Oligarchs Task Force Joint Statement," June 29, 2022, https://home.treasury.gov/news/press-releases/jy0839.
[126] On the need for G7 coordination in any financial pressure on China, see Vest and Kratz, "Sanctioning China in a Taiwan Crisis"; Wright et al., "Retaliation and Resilience."
[127] Fishman, *Chokepoints*, 416.

Policymakers should manage these risks by stress-testing U.S. financial institutions for exposure to Chinese firms, coordinating liquidity arrangements with allied central banks to prevent cascading market disruptions, fortifying supply chains and strategic reserves against Chinese retaliation, and developing alternative pathways to finance trade if Beijing targets U.S. firms. These measures would not fully insulate the U.S. economy from the shock of cutting China off from the dollar, but they would ease the blowback and strengthen the credibility of financial retaliation as an option of last resort.

Critics may argue that the risks of financial warfare with China are too great to contemplate. Applied consistently, that logic would have ruled out nuclear deterrence, which has proved stabilizing in great-power rivalry. The prospect of nuclear war is far more harrowing than any financial standoff, yet the United States has been safer for possessing the capability and resolve to use nuclear weapons in extraordinary circumstances. Their destructive power is precisely what makes them effective at deterring the gravest threats, and what has helped keep them unused for eight decades. The analogy is imperfect, since financial weapons inflict harm more gradually and China holds counter-leverage of its own. But the underlying logic holds. A prepared, credible capability to cut China off from the dollar, reserved for the most extreme provocations, would give Beijing powerful reasons never to commit them. The alternative is having no viable response to extreme coercion or potentially existential threats, a predicament Washington got a glimpse of in 2025.

None of this will matter, however, if the United States undermines the foundations that make the dollar indispensable. Federal Reserve independence, predictable trade policy, the rule of law, and reliable statistical agencies are strategic assets that underpin U.S. financial leverage. So is restraint, since the more freely Washington wields financial sanctions, the more incentive others have to build alternatives to the dollar. Eroding these foundations would weaken the very leverage Washington would need in a crisis or conflict with China, a reminder that self-strengthening and competitive leverage depend on each other.

Energy Import Dependence

Description

China's heavy reliance on foreign energy imports is a vulnerability that, pressed in a crisis or conflict, could impose severe costs on Beijing. That vulnerability is real but possibly more limited than many analysts long assumed, as China's resilience during the 2026 Iran war suggests. Still, the exposure remains and would matter most in a crisis or conflict aimed at Beijing itself, whether through a sudden cutoff or a prolonged

disruption. Although China's cars and trucks increasingly run on electricity and liquefied natural gas (LNG), its oil demand remains near record levels, driven by the petrochemical industry that produces the plastics, synthetic fibers, and components its export and infrastructure sectors depend on.[128] China imports roughly three-quarters of its crude oil, about 90 percent of it by sea, much of it transiting the narrow Malacca, Lombok, and Sunda Straits, each susceptible to interdiction.[129]

Beijing has spent two decades trying to reduce this exposure, aware that a major disruption to its seaborne energy imports would strain its infrastructure, manufacturing, transportation, and military readiness. Since former president Hu Jintao warned of China's "Malacca dilemma" in 2003,[130] Beijing has diversified its suppliers, built overland pipelines from Russia and Central Asia, expanded domestic coal production, and electrified much of its transportation sector. Strategic and commercial petroleum reserves now provide more than 100 days of import cover.[131] These measures were tested in 2026, when the Iran war disrupted global energy markets. China weathered the shock better than many experts anticipated, and its large stockpiles even made it something of a market maker in a tight global market.[132] Still, absorbing a temporary disruption at a distance is very different from enduring a sustained blockade aimed at China itself. Reserves would last months, while a protracted conflict could last years, and renewables and coal still cannot substitute for oil and gas in aviation, shipping, military operations, or most petrochemical production. In that scenario,

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[128] International Energy Agency, *Oil 2025: Analysis and Forecast to 2030* (Paris: IEA, June 2025), https://www.iea.org/reports/oil-2025.

[129] Erica Downs, "Where China Gets Its Oil: Crude Imports in 2025 Reveal Stockpiling and Changing Fortunes of Certain Suppliers, Including Those Sanctioned," Center on Global Energy Policy, Columbia University, January 29, 2026, https://www.energypolicy.columbia.edu/where-china-gets-its-oil-crude-imports-in-2025-reveal-stockpiling-and-changing-fortunes-of-certain-suppliers-including-those-sanctioned/. Figures reflect 2025 data. Import patterns shifted during the 2026 Iran war.

[130] Ian Storey, "China's 'Malacca Dilemma,'" *China Brief* 6, no. 8 (April 12, 2006), Jamestown Foundation, https://jamestown.org/chinas-malacca-dilemma/.

[131] Erica Downs, "Implications of the Conflict in the Middle East for China's Energy Security," Center on Global Energy Policy, Columbia University, March 4, 2026, https://www.energypolicy.columbia.edu/implications-of-the-conflict-in-the-middle-east-for-chinas-energy-security/. For an estimate of 120 days, see Xinyi Wu, "Bolstering Oil Stockpile, China's Import Surge Seen Creating a 120-Day Shock Shield," *South China Morning Post*, March 10, 2026, https://www.scmp.com/economy/global-economy/article/3346121/bolstering-oil-stockpile-chinas-import-surge-seen-creating-120-day-shock-shield. Reserve levels likely fell during the Iran war.

[132] Zongyuan Zoe Liu, "How China Managed the Oil Shock," *Foreign Policy*, October 2, 2026, https://foreignpolicy.com/2026/10/02/china-oil-reserves-refiners-energy-crisis-coal-petrochemicals/.

alternative energy sources, strategic reserves, and Russian overland imports would struggle to offset the loss of seaborne supply.[133]

Natural gas is another dependency the regime must manage. Pipelines from Russia and Central Asia supply a large share of China's imports, but China is also one of the world's largest importers of LNG, which arrives by sea along the same vulnerable routes as oil. Because roughly two-thirds of global LNG is sold under long-term contracts, little spare supply is available on the spot market, and Beijing would struggle to replace lost cargoes in a crisis. China has sizable shale gas reserves, but difficult geology and limited access to advanced drilling and fracking technology, an industry the United States dominates, have kept production well below its potential.[134]

Prescription

China's dependence on imported energy creates a structural vulnerability that threatens its industrial base, consumer economy, and military operations. The United States could disrupt these flows in a crisis, but doing so would be risky. As the 2026 Iran war demonstrated, energy disruptions impose major collateral costs on global markets and on the economies of the United States and its partners. The war also showed that China can absorb market shocks, so the value of this leverage lies at two ends of the timeline. A sudden, targeted cutoff could impose acute costs in a crisis before Beijing has time to adapt by drawing down reserves, rationing demand, and rerouting supply. And over a protracted conflict, those adaptations would eventually run up against the limits of China's reserves and overland alternatives. Both prospects can deter Beijing well before any shipment is stopped.

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[133] Downs, "Where China Gets Its Oil"; Daniel Fu, "The Myth of the PRC's Overseas Energy Vulnerability," Jamestown Foundation, April 9, 2026, https://jamestown.substack.com/p/the-myth-of-the-prcs-overseas-energy; Sumanta Sen et al., "How China Can Survive without the Strait of Hormuz," *Reuters*, March 31, 2026, https://www.reuters.com/graphics/IRAN-CRISIS/CHINA-OIL/egpbeormkvq/.

[134] On LNG contracting, see International Group of Liquefied Natural Gas Importers, *Annual Report 2026* (Paris: International Group of Liquefied Natural Gas Importers, 2026), https://cdn.prod.website-files.com/67caa5e229e50c8dab63ce81/6a19795add255288fa95dc02_06%20-%20Annual%20Report%202026.pdf. On U.S. dominance of fracking technology, see Mike Soraghan, "The Rise and Fall of the Fracking Phenomenon," *Politico*, July 11, 2026, https://www.politico.com/news/magazine/2026/07/11/fracking-energy-00992354. On China's shale gas development, see U.S. Energy Information Administration, "China Extracts Commercially Viable Natural Gas from Deeper Shale Formations," September 30, 2024, https://www.eia.gov/todayinenergy/detail.php?id=63284.

The substantial costs of energy disruption for the United States and its partners may lead Beijing to doubt that Washington would follow through. Making the threat credible therefore requires a suite of plausible, scalable options. The first step is understanding where China remains most exposed. The U.S. intelligence community should study how Beijing responded to the 2026 disruptions in the Strait of Hormuz to identify persistent weaknesses in its maritime supply chain and gauge its tolerance for prolonged disruptions, costly rerouting, and higher insurance premiums. Those insights would allow Washington to tailor more surgical options for achieving the effects it seeks.

Below the threshold of a blockade, Washington could raise the cost and uncertainty of energy shipments bound for China. OFAC already uses maritime sanctions to deter shipping companies, insurers, brokers, and banks from enabling the shadow fleets that carry Iranian and Russian oil.[135] Similar pressure on insurance, port access, and flag registration would make it harder for China-bound tankers to obtain essential services. Sanctioning Chinese energy majors such as Sinopec or PetroChina would go further, pushing banks and shippers worldwide to consider cutting ties with them for fear of secondary sanctions. Washington could also prepare the tools to apply this pressure quickly, including broader authorities to sanction entities transporting energy to China and a multinational coordination cell, modeled on the one that tracks illicit oil and coal transfers to North Korea, to monitor China-bound energy shipping.[136]

Alongside these economic and financial levers, the Pentagon should plan and practice the ability to interdict China's seaborne energy supply. Exercises demonstrating that U.S. forces could control key chokepoints, from the Malacca Strait to the Lombok Strait, would signal that interdiction is a viable military option. Pre-positioning assets and conducting maritime domain awareness training along China's energy routes would underscore U.S. capability and resolve, two requisites of deterrence. These exercises should also expand intelligence sharing with Indo-Pacific partners so that a combined coalition can distinguish friendly from adversary shipping on the sea lanes both rely on. Identifying alternative energy sources and routes for allies is just as essential. Japan, South Korea, and Taiwan depend on the same routes as China, and as the Iran war

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[135] See, for example, U.S. Department of the Treasury, "Treasury Intensifies Sanctions Against Russia by Targeting Russia's Oil Production and Exports," press release, January 10, 2025, https://home.treasury.gov/news/press-releases/jy2777.

[136] On multinational monitoring of illicit ship-to-ship transfers to North Korea, see U.S. Department of State, "Joint Statement on the Establishment of the Multilateral Sanctions Monitoring Team," October 16, 2024, https://2021-2025.state.gov/joint-statement-on-establishing-multilateral-sanctions-monitoring-team-for-implementation-of-un-security-council-resolutions-regarding-the-dprk/.

showed, energy disruptions spread quickly. Protecting allied flows would help maintain coalition cohesion and deny China the chance to exploit its neighbors' vulnerabilities in a crisis.

Turning China's unfavorable maritime geography into U.S. leverage demands as much diplomatic preparation as military planning. Well ahead of any crisis, Washington should begin quiet discussions with partners that could help control key chokepoints, including Australia, Japan, the Philippines, and Singapore. The aim would be to explore, without seeking firm commitments, how each government might approach a crisis, what role it might play in enforcing restrictions, and, if it chose not to act, whether it might support a role for U.S. and allied forces.

Visible readiness across these intelligence, diplomatic, economic, and military lines of effort would strengthen deterrence by showing Beijing that its energy lifelines could be cut in a crisis or disrupted over a protracted conflict. As with dollar dependence, however, exploiting this vulnerability would carry major risks for the global economy. Washington should prepare these options now and reserve their use for major crises and conflicts.

Industrial Input Dependence

Description

Energy is not China's only commodity dependency. China dominates the processing and refining of many critical minerals, but it relies heavily on foreign supplies of the raw materials that feed its industrial base, much of it mined in countries aligned with or friendly to the United States.[137]

China imports roughly 80 percent of the iron ore that undergirds its steel industry, mostly from Australia. It also sources most of its copper and lithium, critical to battery and defense manufacturing, from Australia, Chile, the Democratic Republic of the Congo, and Peru.[138] Control over these raw inputs, especially by U.S. allies and partners, provides a partial counterweight to Beijing's dominance in processing and refining rare earths and other critical minerals.

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[137] IEA, *Global Critical Minerals Outlook 2025*.
[138] U.S. Geological Survey, *Mineral Commodity Summaries 2026* (Reston, VA: U.S. Geological Survey, 2026), https://pubs.usgs.gov/publication/mcs2026; IEA, *Global Critical Minerals Outlook 2025*.

A 2018 analysis of 42 nonfuel mineral commodities by researchers at the U.S. Geological Survey found that China was a net importer of 19 of them.[139] China remains import-dependent even for some commodities it is assumed to dominate. Consider copper. China smelts about half the world's copper but mines only about 8 percent of the raw concentrate those smelters require, leaving its processing industry dependent on foreign ore. That exposure became evident as global copper supply tightened in 2025. With ore scarce, the fees smelters earn for processing it turned negative, and by early 2026 China's leading smelters were cutting output as their margins collapsed.[140]

Beijing has long sought to reduce this dependence and is making some progress. China Mineral Resources Group, the state-owned enterprise that coordinates China's iron ore purchasing, projects that China's iron ore import dependence will fall from about 80 percent in 2025 to roughly 50 percent by 2030, as domestic production expands and Chinese-owned mines abroad, such as the Simandou project in Guinea, come online.[141] Even on that optimistic timeline, China would still rely on imports for half of its iron ore, much of it from Australia, and its exposure in copper and lithium would remain substantial. Parts of this vulnerability are eroding gradually, but the leverage it offers will persist as long as China's industries depend on raw materials it can neither produce at home nor fully control abroad.

Prescription

China's industrial base rests on imported iron ore, copper, and lithium that Beijing has struggled to replace. Several of its primary suppliers are close U.S. partners: Australia sells iron ore and lithium, and Chile and Peru sell copper. In other cases, such as cobalt from the Democratic Republic of the Congo, Chinese ownership of key mines limits the

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[139] Andrew L. Gulley, Nedal T. Nassar, and Sean Xun, "China, the United States, and Competition for Resources That Enable Emerging Technologies," *Proceedings of the National Academy of Sciences* 115, no. 16 (April 17, 2018): 4111-15, https://doi.org/10.1073/pnas.1717152115.
[140] International Copper Study Group, *The World Copper Factbook 2025* (Lisbon: ICSG, 2025), https://icsg.org/copper-factbook/.
[141] "China's Iron Ore Imports Will Fall to 50% of Consumption by 2030, Says Think Tank," Mining.com, June 16, 2026, https://www.mining.com/web/chinas-iron-ore-imports-will-fall-to-50-of-consumption-by-2030-says-think-tank/; Clyde Russell, "Iron Ore Industry Sees a Bright Future, but Green Steel Fades," *Reuters*, June 18, 2026, https://www.reuters.com/commentary/reuters-open-interest/iron-ore-industry-sees-bright-future-green-steel-fades-2026-06-18/; Rhiannon Hoyle, "Miners Unfazed by China's Plan to Control Iron-Ore Imports," *Wall Street Journal*, July 28, 2022, https://www.wsj.com/finance/commodities-futures/miners-unfazed-by-chinas-plan-to-control-iron-ore-imports-11658993837.

diplomatic leverage available to Washington.[142] Where that leverage exists, these inputs, like oil, offer pressure points that can strengthen deterrence and, if used, impose costs on China's industries across multiple sectors at once.

In a Taiwan crisis, for example, coordinated restrictions by Australia on iron ore and lithium and by Chile and Peru on copper would send Beijing a clear message that its industrial base could be disrupted and its defense production degraded. To identify where such leverage is greatest, Washington and its partners should clarify who controls the supplies of each input, how large China's stockpiles are, how easily China could substitute another source or material, and how long it would take China to restore affected production lines.

Countries with genuine leverage over China's industrial base may be reluctant to use it. China is the largest customer for Australian iron ore and for Chilean and Peruvian copper, and Beijing has shown it will punish suppliers that cross it.[143] Washington can help to address partner concerns by working to soften the blow of potential Chinese retaliation, including through offtake agreements, stockpile purchases, and investments in processing capacity outside China. Quiet discussions with key suppliers about how they might respond in a crisis, along with the legal authorities to act quickly, would lay the groundwork. With that preparation in place, the threat of restricting these inputs would carry greater weight in Beijing.

Export Market Dependence

Description

China's dependence on foreign export markets is among its most significant vulnerabilities, and one of Washington's most promising sources of leverage. China's manufacturing sector makes up nearly 25 percent of its GDP, compared with a world average of about 15 percent, and produces nearly a third of all manufactured goods worldwide. That industrial might has fueled China's military growth and economic coercion, but it also produces far more than China's own economy can absorb. The imbalance is a product of deliberate policy. Beijing has expanded manufacturing

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[142] Eric Lipton and Dionne Searcey, "How the U.S. Lost Ground to China in the Contest for Clean Energy," *New York Times*, November 20, 2021, https://www.nytimes.com/2021/11/20/world/us-china-cobalt-congo.html.
[143] Australian Government, Department of Foreign Affairs and Trade, "China Country Brief," https://www.dfat.gov.au/geo/china/china-country-brief; Ron Wickes, "Chinese Trade Sanctions against Australia: Quantifying the Impact," *Australian Economic Papers* 63, no. 2 (2024): 220-36, https://doi.org/10.1111/1467-8454.12332.

through state subsidies, cheap credit, and an undervalued currency to bolster employment and growth, build national champions, and reduce reliance on foreign suppliers.[144]

China must look to overseas markets to sustain employment and growth because domestic household consumption has not kept pace with industrial output. Household consumption accounts for only about 40 percent of China's GDP, well below the share in other major economies, in part because thin pensions, limited unemployment insurance, and high out-of-pocket healthcare costs lead households to save heavily.[145] Beijing is well aware of the problem. Every Five-Year Plan the Party has released since 2006 has called for boosting domestic consumption.[146] Yet genuine rebalancing would require reforming the social safety net, redistributing income, and reducing the state's dominance of the economy, steps that have proved exceedingly difficult given the vested interests of state-owned enterprises, fears of rising unemployment, and the Party's insistence on political control over the economy. Beijing has instead doubled down on exports. In 2025, China posted a record $1.2 trillion trade surplus, nearly 20 percent higher than the year before and the largest ever recorded by a single economy.[147]

When the property crisis that began in 2021 stalled a critical growth engine, Beijing again filled the shortfall by doubling down on manufacturing to sustain headline growth. That renewed investment has deepened the problem, spreading overcapacity across more sectors, intensifying price wars among Chinese factories competing for weak domestic demand, and producing China's longest deflationary period since the 1990s. Deflation makes China's exports cheaper abroad, but at home it drains corporate

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[144] Baldwin, "China Is the World's Sole Manufacturing Superpower"; "Measuring China's Manufacturing Might," ChinaPower Project, CSIS, https://chinapower.csis.org/tracker/china-manufacturing/; "A Made-in-China Plan for World Domination," *Economist*, September 23, 2025, https://www.economist.com/international/2025/09/23/a-made-in-china-plan-for-world-domination.

[145] International Monetary Fund, *People's Republic of China: 2025 Article IV Consultation; Press Release; Staff Report; and Statement by the Executive Director*, IMF Country Report No. 26/44 (Washington, DC: IMF, February 2026), https://www.imf.org/en/publications/cr/issues/2026/02/17/peoples-republic-of-china-2025-article-iv-consultation-press-release-staff-report-and-574028.

[146] Nicholas R. Lardy, *Sustaining China's Economic Growth after the Global Financial Crisis* (Washington, DC: Peterson Institute for International Economics, 2012); Alexander Brown, "China's New Five-Year Plan Will Embrace Industry - and Once Again Give Consumers the Cold Shoulder," MERICS, February 26, 2026, https://merics.org/en/comment/chinas-new-five-year-plan-will-embrace-industry-and-once-again-give-consumers-cold-shoulder.

[147] "China's Trade Surplus Surges 20% to a Record $1.2 Trillion, Even with Trump's Tariffs," *NPR*, January 14, 2026, https://www.npr.org/2026/01/14/nx-s1-5677029/chinas-trade-surplus-surges-1-2-trillion-trump-tariffs.

profits and deepens debt burdens. Total debt now exceeds 300 percent of GDP, up from about 160 percent in 2008, magnifying the fallout China would face from an economic shock.[148]

Beyond offloading surplus production, China is expanding aggressively into the industries of the future, from electric vehicles to advanced batteries, where it has built real competitive advantages and is rapidly gaining global market share. China now produces more than two-thirds of the world's electric vehicles and accounts for roughly a quarter of global advanced-industry production, up from 3.5 percent in 1995, across sectors ranging from computers to chemicals.[149] Foreign markets are thus doubly important to China. They serve as a release valve for industrial overcapacity, and they are essential to Beijing's ambition to dominate high-tech industries.

If current trends continue, China's growing dominance in critical sectors could hollow out manufacturers in the United States and allied countries. The erosion of these defense and civilian industrial bases would also invite Chinese coercion, leaving the United States and other advanced democracies dependent on their strategic rival for goods and technology they need. Those concerns are now widely shared. At a 2025 G7 meeting, European Commission President Ursula von der Leyen warned that China's industrial policies were creating a "pattern of dominance, dependency and blackmail."[150] During his December 2025 visit to Beijing, even French President

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[148] On China's deflationary pressures and "involution," see Joe Leahy et al., "China Struggles to Break Its Addiction to Manufacturing," *Financial Times*, July 29, 2025, https://www.ft.com/content/f7979a8f-874a-4b47-8304-d93d30171980; Yanmei Xie, "An Anatomy of Industrial Involution in China," RAND Corporation, October 24, 2025, https://www.rand.org/pubs/commentary/2025/10/an-anatomy-of-industrial-involution-in-china.html. On China's debt and its potential fallout, see David J. Lynch, "Why China's Economy May Be Headed for Its Worst Year since 1991," *Washington Post*, September 21, 2026, https://www.washingtonpost.com/business/2026/09/20/chinas-leader-pursues-global-power-many-its-citizens-feel-left-behind; Michael Pettis, "Who Paid for China's Last Debt Cleanup, and Who Will Pay for the Next?," Carnegie Endowment for International Peace, August 25, 2026, https://carnegieendowment.org/china-financial-markets/2026/08/who-paid-for-chinas-last-debt-cleanup-and-who-will-pay-for-the-next.

[149] Information Technology and Innovation Foundation, *The Hamilton Index, 2026: China's Dominance in Advanced Industries Is Growing* (Washington, DC: Information Technology and Innovation Foundation, May 6, 2026), https://itif.org/publications/2026/05/06/hamilton-index-2026-chinas-dominance-in-advanced-industries-is-growing/; on electric vehicles, see IEA, *Global EV Outlook 2026*.

[150] Ursula von der Leyen, "Statement by President von der Leyen at Session II - Working Lunch of the G7," European Commission, June 16, 2025, https://ec.europa.eu/commission/presscorner/detail/en/statement_25_1522.

Emmanuel Macron declared that "these imbalances are becoming unbearable."[151] That growing alarm among China's largest customers is what makes its export dependence increasingly exploitable.

That alarm is not confined to advanced economies. China's share of global exports has already reached 15 percent and is projected to keep rising, displacing manufacturers in developing countries as well as wealthy ones.[152] Because China's growth model depends on market access it cannot control, coordinated restrictions by major economies would trigger factory closures, cascading corporate-debt defaults, and acute political pressure on a regime with fewer and fewer domestic shock absorbers to soften the blow.

Prescription

Compared with several of China's other vulnerabilities, this one comes with more willing partners, since China's export surge threatens the industrial strength and livelihoods of many U.S. allies. Washington should start by bringing together two constituencies with the same grievance, advanced economies facing deindustrialization and developing countries whose own manufacturing ambitions are being undercut by a deluge of Chinese goods. Japan, South Korea, and the European Union all face their own version of the "China shock," while Brazil, India, Indonesia, Mexico, and Türkiye have already imposed selective barriers on Chinese imports.[153] The halting nature of these efforts underscores the need for collective action. Each country fears retaliation if it acts alone and would be far more willing to join a coalition of like-minded partners.

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[151] Adrienne Klasa and Joe Leahy, "'Unbearable Imbalances' Cast Shadow on Emmanuel Macron's Beijing Bonhomie," *Financial Times*, December 7, 2025, https://www.ft.com/content/ebfa1d6e-747e-451b-bc28-96e5d73fedf7.

[152] World Trade Organization, *World Trade Statistical Review 2025*; Brad W. Setser, "China's Stunning 2024 Export Growth," Council on Foreign Relations, December 17, 2024, https://www.cfr.org/articles/chinas-stunning-2024-export-growth.

[153] Setser, "China's Stunning 2024 Export Growth"; Claus Soong and Jacob Gunter, "It's Not Us, It's You: China's Surging Overcapacities and Distortive Exports Are Pressuring Many Developing Countries Too," MERICS China Global Competition Tracker, no. 3, November 27, 2024, https://merics.org/en/tracker/its-not-us-its-you-chinas-surging-overcapacities-and-distortive-exports-are-pressuring-many; Rimjhim Singh, "Here's Why Developing Nations Are Leading Trade Investigations against China," *Business Standard*, January 10, 2025, https://www.business-standard.com/world-news/china-trade-investigations-2024-export-overcapacity-eu-india-125011000725_1.html; "Mexico Approves Measure Raising Tariffs on Chinese Imports," China-Global South Project, December 11, 2025, https://chinaglobalsouth.com/2025/12/11/mexico-tariffs-china-trade-2026/.

Once assembled, this coalition could use coordinated tariffs and other trade measures to protect allied strategic industries, such as steel, shipbuilding, batteries, and drones, and to raise the cost of China's flooding of global markets. High-standard trade agreements could go further, institutionalizing rules on subsidies, state-owned enterprises, and forced technology transfer that China cannot meet without abandoning the practices that drive its export surge. Members could also commit to support one another against Chinese retaliation and accelerate alternative sourcing for inputs where China holds controlling positions. Together, these measures would revive competition stifled by China's industrial policies and reduce the prospects of Beijing's dominance over sectors critical to U.S. and allied security and prosperity. A coalition able to restrict access to its markets could also provide significant leverage over Beijing, both as a deterrent in a crisis and as a means of pressing China to change the trade practices that fuel its export surge.

The coalition will also need to prevent China from circumventing these measures, whether by transshipping goods through third countries or by moving final assembly abroad to disguise their origin. That will require stronger rules of origin, shared customs data, and steeper penalties for evasion. Coordinated outbound investment screening would further prevent U.S. and allied firms and investors from financing the Chinese capabilities these trade measures seek to limit.

A principal risk is that China would try to peel off the coalition's more vulnerable members. Washington and its partners should anticipate this by offering developing countries affirmative incentives, such as expanded market access and industrial development financing, to offset the costs of Chinese retaliation. Those offers will be credible only if Washington distinguishes clearly between partners and China in its own trade policy.

Vulnerability Type II: Strategic Overextension

China's ambitions abroad have grown faster than the resources available to sustain them. Many of Beijing's external goals, from unifying Taiwan to reshaping global governance, were set when its economy was growing far faster than it is today. Slower growth, mounting debt, and an aging population now force harder choices among military modernization, technology subsidies, overseas commitments, and social needs. The strain is already visible. Over the past two decades, China lent more than $1 trillion to developing countries, much of it under the Belt and Road Initiative, and a large share

is now owed by governments in debt distress.[154] Beijing has since extended about $240 billion in emergency rescue loans and sharply cut new lending.[155] Its citizens and assets abroad have also outgrown its ability to protect them, as repeated militant attacks on Chinese workers in Pakistan have shown.[156] This section examines the two forms of overextension that offer the clearest sources of leverage, China's pursuit of its territorial and maritime claims and its overseas influence apparatus.

Sovereignty Disputes

Description

China's pursuit of its territorial and maritime claims is a clear case of strategic overextension, an ambition that exposes Beijing to potential costs abroad. A defining feature of this approach is incrementalism. China advances its claims through a steady series of individually modest moves, including dredging and building artificial islands in the South China Sea, deploying coast guard and maritime militia vessels to harass foreign ships inside other countries' exclusive economic zones, staging snap exercises and an expanding PLA presence around Taiwan, and justifying new installations in civilian or environmental terms, such as the nature reserve Beijing declared at Scarborough Shoal in 2025.[157] Across Taiwan, the South and East China Seas, and the Himalayan frontier, these moves add up to a gradual revision of the territorial and maritime status quo.[158]

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[154] Ammar A. Malik et al., *Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative* (Williamsburg, VA: AidData at William & Mary, November 2023), https://www.aiddata.org/publications/belt-and-road-reboot.

[155] Sebastian Horn, Bradley C. Parks, Carmen M. Reinhart, and Christoph Trebesch, "China as an International Lender of Last Resort," NBER Working Paper No. 31105 (Cambridge, MA: National Bureau of Economic Research, March 2023), https://www.nber.org/papers/w31105; Malik et al., *Belt and Road Reboot*.

[156] See, for example, "Five Chinese Nationals Killed in Suicide Bomb Attack in Pakistan," *Reuters*, March 26, 2024, https://www.reuters.com/world/asia-pacific/five-chinese-nationals-killed-suicide-bomb-attack-pakistan-2024-03-26/; "Two Chinese Nationals Killed in Blast near Pakistan's Karachi Airport," *Reuters*, October 7, 2024, https://www.reuters.com/world/asia-pacific/two-chinese-nationals-killed-blast-near-pakistans-karachi-airport-2024-10-06/.

[157] "The Scarborough Shoal Dispute and China's Nature Reserve Plans," *Reuters*, September 11, 2025, https://www.reuters.com/world/asia-pacific/scarborough-shoal-dispute-chinas-nature-reserve-plans-2025-09-11/.

[158] Michael J. Green et al., *Countering Coercion in Maritime Asia: The Theory and Practice of Gray Zone Deterrence* (Washington, DC: CSIS, 2017); Andrew S. Erickson, ed., *Maritime Gray Zone Operations: Challenges and Countermeasures in the Indo-Pacific* (New York: Routledge, 2023). For ongoing coverage, see the Asia Maritime Transparency Initiative, CSIS, https://amti.csis.org.

This incremental approach is a vulnerability for two related reasons. The first is a contestation gap. Beijing has advanced its claims largely because detection, attribution, and coordinated responses by the United States and its partners have been slow and fragmented. That need not remain the case. For years, the United States has too often deterred itself, failing to probe China's own risk-aversion. As a result, Beijing's gray-zone campaigns have rarely been forced to absorb real costs or risks, and Washington has ceded the initiative by default.

The second is the backlash this behavior can provoke in allied and partner countries, perhaps more directly than any other issue in this report. Territorial infringement registers with publics, and China's encroachments have reshaped popular and elite opinion from India to the Philippines to Taiwan to Japan. When Manila began releasing footage of Chinese coast guard vessels harassing its ships in 2023, an abstract dispute over reefs and shoals became a vivid display of Chinese aggression.[159] In June 2024, Chinese coast guard personnel armed with knives and axes rammed and boarded a Philippine resupply boat near Second Thomas Shoal, and a Filipino sailor lost his thumb in the encounter.[160] The episode helped bolster public support in the Philippines for a more assertive posture toward China and a deeper alliance with the United States.[161] Each such incident leaves Beijing facing neighbors more determined to resist it and more closely aligned with Washington. China has no comparable network to draw on. Its only formal treaty ally is North Korea, and its closest partners, such as Russia and Pakistan, currently offer little help in disputes with its neighbors.

Left unchecked, China's approach carries real costs for the United States and its partners. Beijing could eventually consolidate effective control over disputed features and waters, shifting the regional military balance and eroding U.S. and allied access.

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[159] "Manila Embarks on 'Name and Shame' Strategy to Counter Beijing," *Radio Free Asia*, December 7, 2023, https://www.rfa.org/english/news/southchinasea/philippines-name-and-shame-12072023031851.html; Edcel John A. Ibarra and Aries A. Arugay, "Something Old, Something New: The Philippines' Transparency Initiative in the South China Sea," *Fulcrum* (ISEAS-Yusof Ishak Institute), May 6, 2024, https://fulcrum.sg/something-old-something-new-the-philippines-transparency-initiative-in-the-south-china-sea/.

[160] Aaron-Matthew Lariosa, "China Coast Guard Impounds Philippine Navy Boats, Seizes Firearms in Latest Second Thomas Shoal Incident," *USNI News*, June 19, 2024, https://news.usni.org/2024/06/19/china-coast-guard-impounds-philippine-navy-boats-seizes-firearms-in-latest-second-thomas-shoal-incident. On the broader significance of Second Thomas Shoal, see Nick Danby, "By, With, and Through at the Second Thomas Shoal," *War on the Rocks*, May 20, 2024, https://warontherocks.com/by-with-and-through-at-the-second-thomas-shoal/.

[161] Marisse G. Abelgas, "Filipinos Still Favor US over China as Beijing's Global Image Improves: Pew Poll," *Philippine Daily Inquirer*, July 16, 2026, https://usa.inquirer.net/203867/filipinos-still-favor-us-over-china-as-beijings-global-image-improves-pew-poll.

Respect for international law and for other states' sovereignty would weaken, and gray-zone pressure against India, Southeast Asian partners, Taiwan, and Japan would grow bolder as each standoff is settled in Beijing's favor. U.S. alliance credibility would suffer as partners concluded that Washington would not back their resistance. The cumulative result would be a significant erosion of America's position in the region and a substantial step toward a China-led order in the Indo-Pacific.

A more concerted response would deny Beijing the low-cost, low-risk tempo its approach depends on. It would help preserve partners' access, sovereignty, and confidence in U.S. backing, turning each incident into an opportunity to deepen military, technological, and diplomatic cooperation with states on the front line. It would also give Washington a tested understanding of Beijing's risk calculus, insight whose value extends beyond sovereignty disputes.

Prescription

Given these vulnerabilities, a guiding principle of the U.S. response should be to test the elasticity of Beijing's decision-making. Calibrated, incremental pushback can probe where Beijing pulls back and where it escalates. Each test also generates information about China's behavior, replacing assumptions with data and likely helping correct Washington's tendency to overestimate escalation risk.

Closing the contestation gap starts with seeing China's activities more clearly and more quickly. The United States and its partners should build a shared maritime domain awareness architecture, combining coastal radar, intelligence fusion, and commercial satellite imagery that can deliver unclassified, actionable data quickly. That should include expanded intelligence sharing in defined hotspots, such as the waters around Second Thomas Shoal. Persistent, low-cost autonomous systems, including unmanned surface and aerial vehicles, can extend this coverage without requiring the United States or its partners to match China's fleets ship for ship. This is particularly important for Taiwan, which struggles to sustain readiness when responding one-for-one to PLA incursions, and for the Philippines, which cannot match the coast guard and naval forces China can surge to disputed features, even with U.S. support.[162]

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[162] Ben Lewis, "China's Recent ADIZ Violations Have Changed the Status Quo in the Taiwan Strait," *Asia Unbound*, Council on Foreign Relations, February 10, 2023, https://www.cfr.org/blog/chinas-recent-adiz-violations-have-changed-status-quo-taiwan-strait; Cheng-kun Ma and K. Tristan Tang, "The Overlooked Trend in China's Military Violations of Taiwan's ADIZ," *Diplomat*, December 7, 2024, https://thediplomat.com/2024/12/the-overlooked-trend-in-chinas-military-violations-of-taiwans-adiz/.

The same architecture can also help partners apply incremental pressure of their own. That raises a critical question for strategists and military planners: how can U.S. partners wage their own gray-zone campaigns to salami slice back in the other direction? Large numbers of low-cost autonomous platforms offer part of the answer, allowing the Philippines, Vietnam, and Japan to contest disputed features through presence patrols and resupply missions, and to support fishing and resource access, with potentially less escalation risk than manned missions. Small, frequent pushback of this kind, normalized as the routine response to Chinese encroachment, would deny Beijing the uncontested tempo its approach has relied on.

To enable these efforts in the South China Sea, the United States should revise its approach to something more akin to a "Senkaku model," in which the United States continues to take no position on the sovereignty disputes themselves, but nevertheless recognizes administration of features in which ally and partner countries control or occupy certain areas.[163] Under this revised policy, the U.S. military and government could more easily assist other countries in defending the features they control, thereby further preventing China's effective control of the area.

Alongside contestation, the United States and its partners should raise the potential cost and risk of Chinese coercion. Too often, the PLA has been free to operate with impunity, for instance in exercises and operations surrounding Taiwan. Without directly confronting China's military, U.S. and allied forces can sustain normal operations in areas that the PLA might otherwise occupy to encircle Taiwan. This puts the burden on Beijing to decide whether intimidating Taiwan is worth a potential accident or incident with regional militaries.

In the diplomatic realm, faster, collective publicization of incidents, following the model Manila pioneered in 2023, would generate greater reputational and diplomatic costs with each encounter. Sanctions or legal exposure could be brought against the specific vessels, companies, or officials implicated in coercive construction or harassment. Coordinated diplomatic pressure could come from the G7, the Quad, NATO and EU fora, grounded in existing international law, including the 2016 arbitral ruling under the

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[163] For the existing formulation, see "Joint Statement from President Donald J. Trump and Prime Minister Shinzo Abe," The White House, February 10, 2017, which affirms that Article V of the U.S.-Japan Treaty of Mutual Cooperation and Security covers the Senkaku Islands under Japanese administration, while the United States takes no position on ultimate sovereignty, https://trumpwhitehouse.archives.gov/briefings-statements/joint-statement-president-donald-j-trump-prime-minister-shinzo-abe/. See also "Remote Control: Japan's Evolving Senkakus Strategy," Asia Maritime Transparency Initiative, CSIS, July 2020, https://amti.csis.org/remote-control-japans-evolving-senkakus-strategy/.

UN Convention on the Law of the Sea.[164] Together, these tools would make coercion more visible and costly for Beijing.

Each of these tools should also be understood as a basis for coalition building. Intelligence, surveillance, and reconnaissance (ISR) and logistical support to the Philippines builds military interoperability. Intelligence sharing with India along the Line of Actual Control builds a technological and operational relationship that can be applied to crises.[165] Coordinated diplomatic statements foster habits of cooperation among like-minded states and signal clearly and publicly that China's assertiveness is strengthening coalitions arrayed against it.

A principal risk of this approach is escalation from directly contesting PLA presence and forward operations. The guiding principle above is designed to measure and manage that risk through calibrated steps. A second risk concerns reliability. Coalition building requires partners to believe that Washington will stand behind them when Beijing retaliates for their resistance. If the United States backs away when a partner faces real pressure, the coalitions this approach depends on will not hold, and future partners will be more reluctant to take the same risk.

Influence Operations

Description

Beijing's sprawling overseas influence apparatus is a second form of strategic overextension, one that intrudes into other countries' sovereignty and leaves China exposed abroad. It includes United Front networks, Ministry of State Security activity, front organizations, diaspora cultivation programs, embassy-coordinated influence operations, and some university-based student associations. The overarching aim is to reach directly into other states' domestic affairs and steer their decisions on trade,

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[164] Caitlin Campbell and Nargiza Salidjanova, "South China Sea Arbitration Ruling: What Happened and What's Next?," U.S.-China Economic and Security Review Commission, July 12, 2016, https://www.uscc.gov/sites/default/files/Research/Issue%20Brief_South%20China%20Sea%20Arbitration%20Ruling%20What%20Happened%20and%20What%27s%20Next071216.pdf.

[165] Paul D. Shinkman, "U.S. Intel Helped India Rout China in 2022 Border Clash," *U.S. News & World Report*, March 20, 2023, https://www.usnews.com/news/world-report/articles/2023-03-20/u-s-intel-helped-india-rout-china-in-2022-border-clash-sources; see also "US Intelligence Helped India Repel Chinese Border Incursion in 2022: Report," *Defense Post*, March 22, 2023, https://www.thedefensepost.com/2023/03/22/us-intelligence-india-chinese-incursion/.

technology, and security toward China's preferences, often at the expense of U.S. interests.[166]

The apparatus relies on covert funding, concealed state direction, and the cultivation of political and business elites, and it operates in wealthy democracies and fragile developing states alike. That dependence on secrecy is its vulnerability. These activities work only as long as they remain difficult to identify, attribute, and challenge. Once exposed, they lose much of their effect, and because governments and publics resent foreign meddling in their internal affairs, exposure can also generate a backlash that sets back China's influence well beyond the individual case.

Beijing's methods take many forms. In 2024, U.S. prosecutors charged Linda Sun, a former deputy chief of staff to the governor of New York, with acting as an undisclosed agent of the Chinese government, alleging that she blocked Taiwanese officials' access to the governor's office and aligned official messaging with Beijing's wishes.[167] In Canada, authorities investigated allegations that Chinese consular officials mobilized international students to support Beijing's preferred candidate in a 2019 party nomination contest.[168] Muslim Uyghurs living in more than 20 countries, including Egypt, Türkiye, Kazakhstan, and Thailand, have been pressured to inform on their communities or return to China under threat of harm to relatives in Xinjiang.[169] And

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[166] Anne-Marie Brady, "Magic Weapons: China's Political Influence Activities under Xi Jinping," Wilson Center, September 18, 2017, https://www.wilsoncenter.org/article/magic-weapons-chinas-political-influence-activities-under-xi-jinping; Larry Diamond and Orville Schell, eds., *China's Influence and American Interests: Promoting Constructive Vigilance* (Stanford, CA: Hoover Institution Press, 2018), https://www.hoover.org/research/chinas-influence-american-interests-promoting-constructive-vigilance; Martin Purbrick, "United Front Work and Beyond: How the Chinese Communist Party Penetrates the United States and Western Societies," Jamestown Foundation, April 12, 2023, https://jamestown.org/united-front-work-and-beyond-how-the-chinese-communist-party-penetrates-the-united-states-and-western-societies/.

[167] U.S. Attorney's Office, Eastern District of New York, "Former High-Ranking New York State Government Employee Charged with Acting as an Undisclosed Agent of the People's Republic of China and Chinese Communist Party," press release, U.S. Department of Justice, September 3, 2024, https://www.justice.gov/usao-edny/pr/former-high-ranking-new-york-state-government-employee-charged-acting-undisclosed.

[168] Norimitsu Onishi, "Canadian Lawmaker Testifies Chinese Students Were Bused in to Elect Him," *New York Times*, April 2, 2024, https://www.nytimes.com/2024/04/02/world/canada/canada-election-china-han-dong.html.

[169] Amnesty International, "*Nowhere Feels Safe": Uyghurs Tell of China-Led Intimidation Campaign Abroad* (London: Amnesty International, February 21, 2020), https://www.amnesty.org/en/latest/research/2020/02/china-uyghurs-abroad-living-in-fear/.

according to human rights groups, China has operated roughly 100 unauthorized overseas police stations in more than 50 countries without host-government consent.[170]

Exposing and dismantling these operations has two effects. The first is operational. Front organizations lose much of their capacity to function once uncovered. Confucius Institutes illustrate the pattern. Once presented as centers for Chinese language and culture, they spread across American university campuses until revelations of efforts to curb academic freedom and interfere in campus programming drew scrutiny. Congress barred Pentagon language funding to universities hosting the institutes in 2019, and the State Department designated their U.S. coordinating center a foreign mission in 2020. Most institutes have since closed; fewer than five remain in the United States today, down from more than 100 at their peak.[171] The second effect is political. Each revelation shows that Beijing's influence rests heavily on covert pressure, undermining the attractive image China seeks to project and deepening the backlash described above. Either way, Beijing has no easy fix short of abandoning its efforts or spending more to hide them, which would only add to the costs of an enterprise that remains vulnerable to exposure.

Uprooting these operations also offers benefits beyond the immediate case. It strengthens partner countries' institutional resilience and sovereignty, and it builds a reusable base of evidence and detection methods. Each exposed case, whether the pattern behind Confucius Institute closures or a United Front funding channel, makes the next front organization or operative easier to identify.

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[170] Safeguard Defenders, *Patrol and Persuade: A Follow-Up Investigation to 110 Overseas* (Madrid: Safeguard Defenders, December 2022), https://safeguarddefenders.com/en/blog/patrol-and-persuade-follow-investigation-110-overseas; Safeguard Defenders, *110 Overseas: Chinese Transnational Policing Gone Wild* (Madrid: Safeguard Defenders, September 2022), https://safeguarddefenders.com/en/publications/110-overseas; Andrew Hartnett, Nicole Morgret, and Rachael Burton, "China's Global Police State: Background and U.S. Policy Implications," U.S.-China Economic and Security Review Commission, December 13, 2023, https://www.uscc.gov/sites/default/files/2023-12/Chinas_Global_Police_State.pdf.

[171] U.S. Government Accountability Office, *China: With Nearly All U.S. Confucius Institutes Closed, Some Schools Sought Alternative Language Support*, GAO-24-105981 (Washington, DC: GAO, October 30, 2023), https://www.gao.gov/products/gao-24-105981; John S. McCain National Defense Authorization Act for Fiscal Year 2019, Pub. L. No. 115-232, § 1091 (2018); U.S. Department of State, "Designation of the Confucius Institute U.S. Center as a Foreign Mission of the PRC," press statement, August 13, 2020, https://2017-2021.state.gov/confucius-institute-u-s-center-designation-as-a-foreign-mission; Rachelle Peterson, Ian Oxnevad, and Flora Yan, *After Confucius Institutes: China's Enduring Influence on American Higher Education* (New York: National Association of Scholars, June 15, 2022), https://www.nas.org/report/after-confucius-institutes/full-report/.

Prescription

The United States and its partners should treat these activities as sovereignty violations and law enforcement matters, and they should ensure that investigation, disclosure, and prosecution become routine practice. Regarding interference as a priority, sustained over time, would degrade China's influence networks and raise the economic and political price Beijing pays for running them.

To that end, the United States and its allies should build a persistent capability to uncover, investigate, and publicize China's overseas influence operations. That effort should start with attribution, combining intelligence with financial records, corporate and beneficial ownership data, open-source research, investigative journalism, and information from partner governments. Findings should be developed in forms that governments, courts, regulators, universities, and businesses can act on. Close democratic partners should also harmonize their foreign agent transparency regimes, including the U.S. Foreign Agents Registration Act, the United Kingdom's Foreign Influence Registration Scheme, Australia's Foreign Influence Transparency Scheme, and Canada's Foreign Influence Transparency and Accountability Act.[172] Harmonized regimes would make it easier for governments to share intelligence and coordinate enforcement across borders.

Partners with weaker oversight institutions need help building the same tools. The United States, in coordination with G7 partners, should provide technical and institutional assistance to help these states establish or strengthen their own foreign agent registration and enforcement regimes, denying Beijing safe harbor in jurisdictions where it is harder to detect. Civil society organizations in these countries can also help identify and document influence activity, extending this effort beyond the small set of countries with mature counterintelligence services.

The United States should raise the legal and financial costs of these operations by prosecuting operatives and seizing assets tied to Chinese influence schemes under the Foreign Agents Registration Act and the statute barring undisclosed agents of foreign governments.[173] U.S. and allied officials should expose and prosecute efforts to coerce diaspora communities through threats against family members in China. And any of

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[172] Foreign Agents Registration Act, 22 U.S.C. § 611 et seq.; National Security Act 2023 (UK), pt. 4 (establishing the Foreign Influence Registration Scheme, in force July 1, 2025); Foreign Influence Transparency Scheme Act 2018 (Cth) (Australia); Foreign Influence Transparency and Accountability Act, enacted as part of the Countering Foreign Interference Act, S.C. 2024, c. 16 (Can.).
[173] 18 U.S.C. § 951; Foreign Agents Registration Act, 22 U.S.C. § 611 et seq.

Beijing's unauthorized overseas police stations that remain should be investigated and closed.

Two risks deserve attention. The first is evidentiary. Premature or weak allegations undermine credibility and hand Beijing a ready-made narrative that it is the target of a Western smear campaign. The second concerns diaspora communities, which are often Beijing's primary targets. Enforcement must focus on state-directed activities, clearly distinguished from ordinary diaspora life. The Justice Department's China Initiative, ended in 2022 after criticism on exactly this point, is a caution against imprecise targeting that alienates the communities Beijing seeks to control.[174]

Vulnerability Type III: Inherent Contradictions

One of China's greatest vulnerabilities is perhaps the simplest: the CCP cannot bear to be seen for what it is. That creates a significant opportunity for the United States. Exposing Beijing's destabilizing behavior abroad and hypocrisy at home, conduct that contradicts the image it works to project, forces the regime to divert time and resources to damage control, tarnishes its carefully cultivated image, and erodes the international standing on which its great-power ambitions depend. The more clearly the world sees China's conduct, the more resistant it becomes to Beijing's pressure, the more skeptical of its narratives, and the more open to partnership with Washington and its allies.

This section examines two such contradictions. The first is a credibility gap between what Beijing says and what it does. The second is corruption, the enrichment of Party elites that belies the leadership's promises of fairness. Because exposing both draws on the same methods and audiences, one prescription follows the two descriptions.

Credibility Gap

Description

Beijing's campaign to shape global opinion has two goals. The first is to shield the regime from international criticism or interference in matters it treats as internal, above all Taiwan, but also its policies in Xinjiang, Tibet, and Hong Kong. The second is to

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[174] Matthew G. Olsen, "Assistant Attorney General Matthew Olsen Delivers Remarks on Countering Nation-State Threats," U.S. Department of Justice, February 23, 2022, https://www.justice.gov/opa/speech/assistant-attorney-general-matthew-olsen-delivers-remarks-countering-nation-state-threats; Chris Strohm, "DOJ Ends Troubled 'China Initiative' after Failures, Criticism," *Bloomberg Law*, February 23, 2022, https://news.bloomberglaw.com/ip-law/doj-ends-troubled-china-initiative-after-failures-criticism.

bend other states' policies toward Beijing's interests, from votes and abstentions at the United Nations to positions on Taiwan, trade, and human rights.[175] Beijing pursues these aims through heavy and sustained investment in state media, overseas broadcasting, and social media. In much of the developing world, this apparatus fills an information vacuum, making Beijing the first, and sometimes the only, voice framing events for local audiences.[176]

Beijing's messaging advances a familiar set of narratives that recur across its diplomacy and state media. The most persistent holds that China's rise is inevitable and that resisting it is futile. A second asserts that China is a benign great power whose growing economic and military strength poses no threat to the existing order or to its neighbors. A third portrays China as building a multipolar world grounded in mutual respect and noninterference, in implicit contrast to what Beijing casts as American hegemony. A fourth and newer claim is that the China model is a superior path to development, offering developing nations growth and stability without the disorder Beijing associates with Western-style democracy.

These narratives have shaped other governments' choices. States persuaded that China's rise is inexorable are likely to hedge toward Beijing earlier and resist less; states that accept Beijing's claim of benign intentions are more willing to give it the benefit of the doubt on issues where a more skeptical government would push back. Yet each narrative is contradicted by China's own record. Beijing's coercion of its neighbors belies its claims of benign intent, its covert interference abroad belies its professed commitment to noninterference, and its slowing economy and mounting debt belie the promise of a superior model.

The same credibility gap exists within China's own borders. The Party's claim to legitimacy has long rested on competent governance, merit-based advancement, and

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[175] See, for example, Ted Piccone, *China's Long Game on Human Rights at the United Nations* (Washington, DC: Brookings Institution, September 2018), https://www.brookings.edu/articles/chinas-long-game-on-human-rights-at-the-united-nations/.

[176] Sarah Cook, *Beijing's Global Megaphone: The Expansion of Chinese Communist Party Media Influence since 2017* (Washington, DC: Freedom House, 2020), https://freedomhouse.org/report/special-report/2020/beijings-global-megaphone; U.S. Department of State, Office of the Spokesperson, "How the People's Republic of China Seeks to Reshape the Global Information Environment," September 28, 2023, https://2021-2025.state.gov/how-the-peoples-republic-of-china-seeks-to-reshape-the-global-information-environment/; Alicja Bachulska et al., "Borrowed Mouths and Laundered Messages: China's Influence Playbook in Europe," European Council on Foreign Relations, March 9, 2026, https://ecfr.eu/publication/borrowed-mouths-and-laundered-messages-chinas-influence-playbook-in-europe/.

steady economic growth. Those foundations are eroding under the weight of a stalled economy, pervasive corruption (see below), and Xi's turn toward ideological control, in which political loyalty increasingly outweighs competence.[177] Gaps between official messaging and lived experience have deepened public skepticism, from the abrupt end of zero-COVID after years of propaganda defending it to the suspension of youth unemployment data when the figures started climbing.[178] The erosion of domestic legitimacy also affects China's international standing, since what Beijing tells the world is more believable when the Party's account holds up at home.

Corruption

Description

Corruption is a closely related contradiction. Senior officials and their families have amassed considerable offshore wealth while the Party preaches "common prosperity" and urges ordinary citizens to "eat bitterness."[179] Xi has made his anti-corruption campaign a pillar of his political legitimacy, presenting it as proof that he is restoring discipline and fairness to the Party and state. That claim makes continued evidence of elite privilege especially damaging, since it undercuts the basis on which Xi has asked the public and the Party to trust him. More than a decade of anti-corruption purges, which have also helped Xi sideline his rivals, has not solved the problem. The campaign has done little to address the concentrated power, patronage networks, and opacity that continue to breed corruption.[180]

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[177] Minxin Pei, interview by Jonathan A. Czin and Ryan Hass, "How Strong Is the Chinese Communist Party's Hold on Power?," *The Beijing Brief*, Brookings Institution, September 15, 2026, transcript, https://www.brookings.edu/articles/how-strong-is-the-chinese-communist-partys-hold-on-power/.
[178] On the suspension of youth unemployment data, see "China Suspends Youth Unemployment Data after Record Highs," Reuters, August 15, 2023, https://www.reuters.com/world/china/china-suspends-youth-jobless-data-after-record-high-readings-2023-08-15/; on the abrupt end of zero-COVID, see Ang, "The Problem with Zero."
[179] Li Yuan, "China's Young People Can't Find Jobs. Xi Jinping Says to 'Eat Bitterness,'" *New York Times*, May 30, 2023, https://www.nytimes.com/2023/05/30/business/china-youth-unemployment.html; "China's Hereditary Elite Is Taking Shape," *Economist*, March 12, 2026, https://www.economist.com/leaders/2026/03/12/chinas-hereditary-elite-is-taking-shape; "China Is Wrestling with a Novel Phenomenon: Inherited Wealth," *Economist*, March 12, 2026, https://www.economist.com/briefing/2026/03/12/china-is-wrestling-with-a-novel-phenomenon-inherited-wealth.
[180] Pei, *China's Crony Capitalism*; Yuen Yuen Ang, *China's Gilded Age: The Paradox of Economic Boom and Vast Corruption* (Cambridge: Cambridge University Press, 2020). On patronage networks at the provincial level, see Junyan Jiang and Muyang Zhang, "Friends with Benefits: Patronage Networks and Distributive

The evidence for this contradiction already exists and continues to grow. In 2012, *Bloomberg* documented the wealth of Xi's extended family and *the New York Times* reported on the fortune amassed by relatives of then-premier Wen Jiabao. A series of International Consortium of Investigative Journalists projects, including China Leaks, the Panama Papers, and the Pandora Papers, has since revealed similar patterns of offshore wealth among senior officials and their relatives.[181] Beijing has responded consistently. It blocked both news outlets' websites in China after their reports, suppressed such reporting at home, and attacked the journalists, a pattern suggesting the regime cannot credibly contest the underlying records.[182]

Exposing this pattern is a comparatively low-cost and proven tool, since much of the relevant evidence already sits in financial and legal records the United States and its partners can reach. Its value extends well beyond embarrassing individual officials. Beijing's pitch to the world is that its system delivers competent, disciplined governance. Documenting the self-enrichment of the Party's elites undercuts that claim, weakening the appeal of the China model abroad and blunting the propaganda Beijing uses to extend its influence.

Corruption is especially pronounced in the People's Liberation Army. A steady stream of purges has swept through its senior ranks amid reports of procurement fraud and purchased promotions, from the Rocket Force leadership in 2023 to two former defense ministers, Li Shangfu and Wei Fenghe.[183] The purges have since reached the top of the military, with Central Military Commission vice chairmen He Weidong and Zhang

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Politics in China," *Journal of Public Economics* 184 (2020): 104143, https://doi.org/10.1016/j.jpubeco.2020.104143.

[181] "Xi Jinping Millionaire Relations Reveal Fortunes of Elite," Bloomberg News, June 29, 2012, https://www.bloomberg.com/news/articles/2012-06-29/xi-jinping-millionaire-relations-reveal-fortunes-of-elite; David Barboza, "Billions in Hidden Riches for Family of Chinese Leader," *New York Times*, October 25, 2012, https://www.nytimes.com/2012/10/26/business/global/family-of-wen-jiabao-holds-a-hidden-fortune-in-china.html; Marina Walker Guevara et al., "Leaked Records Reveal Offshore Holdings of China's Elite," International Consortium of Investigative Journalists, January 21, 2014, https://www.icij.org/investigations/offshore/leaked-records-reveal-offshore-holdings-of-chinas-elite.

[182] Keith Bradsher, "China Blocks Web Access to Times after Article," *New York Times*, October 25, 2012, https://www.nytimes.com/2012/10/26/world/asia/china-blocks-web-access-to-new-york-times.html; Tom Phillips, "China Steps Up Panama Papers Censorship after Leaders' Relatives Named," *Guardian*, April 7, 2016, https://www.theguardian.com/world/2016/apr/07/china-ramps-up-panama-papers-censorship-after-leaders-relatives-named.

[183] Bonnie Lin et al., "The Purges within China's Military Are Even Deeper Than You Think," ChinaPower Project, CSIS, February 24, 2026, https://chinapower.csis.org/china-pla-military-purges/.

Youxia removed in 2025 and 2026, respectively.[184] Each round of purges removes experienced leaders, disrupts weapons programs, and pushes officers to put political loyalty ahead of initiative, all of which can weaken the PLA's readiness and slow its modernization.

Both contradictions are likely to endure. Closing either would require Beijing to change the behavior and conditions its messaging is meant to conceal, which it has shown little willingness to do. Nor can Beijing always out-message credible evidence once it surfaces.

Prescription: Exposing the Contradictions

The United States can expose these contradictions without resorting to disinformation. Beijing's core narratives are largely false, and the corruption of its elites is well documented. As a result, accurate, sustained reporting on China's conduct and circumstances can weaken Beijing's propaganda on its own. As with the contestation gap in its sovereignty disputes, Beijing's information campaigns have succeeded in part because they have gone largely unchallenged.

Doing so effectively requires the right institutions. Too often, U.S. government communications teams are poorly coordinated, even within departments and agencies, let alone between them. Washington should designate a lead agency or White House coordinator for information competition with China, responsible for aligning themes, timing, and approach across the disclosure and messaging efforts described below.

On the financial side, the Treasury Department's Office of Foreign Assets Control and Financial Crimes Enforcement Network, working with the intelligence community and allied financial intelligence units, should map the offshore holdings of senior Chinese officials and their families using beneficial ownership registries, court records, and existing investigative reporting. Where findings meet evidentiary thresholds, the Justice Department can pursue illicit proceeds that touch the U.S. financial system under anti-money-laundering statutes, the Treasury Department can impose Global Magnitsky

[184] Greg Torode and Mei Mei Chu, "China's Purges of Top Military Commanders Spur Questions about War-Waging Ability," *Reuters*, September 23, 2026, https://www.reuters.com/business/aerospace-defense/chinas-purges-top-military-commanders-spur-questions-about-war-waging-ability-2026-09-23/.

sanctions and asset freezes, and the State Department can bar implicated officials and their families from entering the United States.[185]

Financial disclosure should extend to senior military officers and their families, whose wealth has drawn less outside scrutiny than that of civilian Party and government officials despite arguably greater opportunities for graft. Given how readily such revelations have fueled purges within the PLA, these disclosures could have outsized effects on the institution itself. They also carry added national security sensitivities and would benefit from close coordination with the Pentagon and intelligence community.

Much of this work can be most effective when surfaced by independent journalists and research organizations. Their reporting can carry more weight with foreign and Chinese audiences alike, and Beijing may have a harder time dismissing information as American propaganda when it does not come from the U.S. government. The content should stay focused on China's own record. The objective is to make it harder for Beijing to reconcile its behavior with the stories it tells. That case is strongest when it rests on documented facts.

The intelligence community can help identify the gaps between Beijing's international messaging and its documented behavior, with the State Department's public diplomacy offices bringing them to light. That includes translating and publicizing Chinese-language nationalist content, produced for domestic audiences, that contradicts the more moderate image Beijing presents abroad. Restoring funding for U.S. international broadcasters such as Voice of America and Radio Free Asia, which were sharply cut in 2025, would help reestablish a consistent American voice in places where Beijing's media now face little competition, particularly in the developing world.[186] Supporting expatriate and diaspora Chinese-language journalism is another comparatively low-cost way to extend these efforts.

The United States will be more effective pursuing these efforts alongside allies. On the financial side, sharing leads and methods with Five Eyes and European financial intelligence units, and coordinating asset freezes and visa bans where possible, would deny Chinese officials easy alternative places to move their illicit assets. On the

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[185] Global Magnitsky Human Rights Accountability Act, Pub. L. No. 114-328, §§ 1261-65 (2016); Executive Order 13818, "Blocking the Property of Persons Involved in Serious Human Rights Abuse or Corruption," December 20, 2017.

[186] Executive Order 14238, "Continuing the Reduction of the Federal Bureaucracy," March 14, 2025; Bonnie S. Glaser and Sarah Cook, "China's Influence on Global Media," German Marshall Fund of the United States, October 18, 2022, https://www.gmfus.org/news/chinas-influence-global-media.

messaging side, coordinating with allied foreign ministries, and encouraging allies to sustain their own international broadcasting, would multiply the reach of any single disclosure, particularly in regions where Beijing's state media dominate. It would also make the overall effort harder for Beijing to dismiss as an American campaign.

These efforts should target at least three audiences. The first is foreign publics and elites in the countries Beijing courts most actively at the expense of U.S. interests. The second is China's own elites, who bear a direct cost in money, time, and exposure risk each time new information surfaces. The third is China's domestic population, the hardest audience to reach. Circumvention technologies offer one channel, and the tens of millions of Chinese citizens who travel, study, and do business abroad each year can carry information home with them. Planners should treat the first two audiences as near-term priorities and the third as a longer-term effort whose returns will build gradually.

Two risks warrant particular attention. The first concerns accuracy. Exaggerated or poorly substantiated claims would hand Beijing an easy rebuttal, allowing it to argue that the United States is spreading disinformation. Strong evidentiary discipline should govern what is surfaced and how it is framed. The second concerns American credibility. Exposing Beijing's contradictions while ignoring or downplaying comparable American shortcomings would undercut the entire effort. Audiences abroad will readily notice the double standard. Washington's ability to compete in the information space depends heavily on the example it sets, both at home and abroad.

Figure 2 summarizes the recommended instruments, likely effects, and principal risks for each of the nine vulnerabilities.

Figure 2. Exploiting the Nine Focus Vulnerabilities

Vulnerability	Primary instruments	Likely effect	Principal risk
Advanced Technology Dependence	Export controls on advanced chips, chipmaking tools, and EDA software; Foreign Direct Product Rule; Entity List expansion to affiliates; closing loopholes involving subsidiaries, smuggling, cloud access, and servicing; synchronization with the Netherlands and Japan; codification modeled on CAATSA; visa options to attract and retain top researchers, paired with targeted counterintelligence;	High; advantages accrue over time	Rare-earth or other chokepoint retaliation; further spur to Chinese self-reliance; friction with allies if FDPR is used; controls traded away in negotiations; overly broad investigations that push talent back to China

	aerospace and enabling technology controls held in reserve		
Dollar and Financial Exposure	Graduated sanctions, from small lenders and PLA-linked banks to SDN designation of the largest banks and the People's Bank of China; secondary sanctions on facilitators; immobilization of reserves; allied agreement on thresholds; stress-testing of U.S. institutions and liquidity arrangements with allied central banks	Severe in crisis; strong deterrent if credibly prepared	Global financial shock and self-harm; Chinese retaliation; erosion of the dollar's role if overused
Energy Import Dependence	Maritime sanctions on shippers, insurers, and energy majors; multinational shipping monitoring cell; interdiction planning and exercises; quiet chokepoint discussions with partners; study of China's energy response to the 2026 Iran war; alternative supplies and routes for allies	High as deterrent; acute but diminishing in a short crisis; high in a protracted conflict	Escalation if employed; global market disruption; allied energy flows imperiled
Industrial Input Dependence	Coordinated allied export restrictions on iron ore, copper, and lithium; offtake agreements, stockpiling, and processing investment to cushion partners; assessment of supply control, stockpiles, and substitutes; quiet discussions with key suppliers; legal authorities to act quickly	Moderate to high in crisis; gradually declining as China diversifies	Chinese retaliation against suppliers; partner reluctance; Chinese ownership of some mines
Export Market Dependence	Coalition tariffs and trade measures; high-standard trade agreements; stronger rules of origin and shared customs data; outbound investment screening; incentives for developing-country partners	High; few alternative markets for China's surplus	Beijing peels off vulnerable coalition members; retaliation; U.S. trade policy undercutting partner incentives
Sovereignty Disputes	Shared maritime domain awareness; low-cost autonomous systems; partner pushback against incremental encroachment; Senkaku-model recognition of partner-administered features; allied presence operations; rapid publicizing of incidents; targeted	High; proven by Philippine transparency efforts	Escalation in contested areas; loss of partner confidence if U.S. support falters

	sanctions; diplomatic pressure grounded in the 2016 arbitral ruling		
Influence Operations	Persistent attribution capability; harmonized foreign agent transparency regimes; capacity building for weaker partners; FARA and 18 U.S.C. § 951 prosecutions; asset seizures; prosecution of diaspora coercion; closure of overseas police stations	Medium-high; proven by Confucius Institute closures	Weak or premature allegations; imprecise targeting that alienates diaspora communities
Credibility Gap	Lead agency or White House coordinator for information competition; intelligence identification of gaps between messaging and behavior; translation of Chinese-language nationalist content; restored funding for international broadcasting; support for diaspora journalism; allied coordination	Moderate; builds over time	Exaggerated claims; U.S. double standards; Beijing dismisses the effort as American propaganda
Corruption	Mapping offshore holdings of officials and military officers; anti-money-laundering cases; Global Magnitsky sanctions and asset freezes; visa bans; disclosure through independent journalists; allied financial intelligence sharing	High on regime legitimacy and the China model's appeal; institutional damage to the PLA	Overreach or poorly substantiated claims; perceived U.S. hypocrisy

From Tools to Strategy

Parts II and III addressed which of China's vulnerabilities to exploit and how. Part IV converts those tools into a strategy by deciding when to apply pressure to each vulnerability and to what ends.

Part IV. Assembling the Strategy

When should Washington exploit China's vulnerabilities and to what ends?

The aim of competitive leverage is to reduce the threat China poses to core U.S. interests and to strengthen America's position in the competition. The preceding parts argued that such leverage can be built by exploiting China's vulnerabilities. But it cannot be pursued haphazardly. To be effective, it must be planned in advance, appropriately scoped, and well timed. Having examined the nine focus vulnerabilities and the tools best suited to each, this part addresses what competitive leverage is meant to achieve and when each tool should be used.

We identify three principal purposes for competitive leverage. The first is to constrain China's ability to turn national strength into coercive power. The second is to deter Beijing's aggression and, if deterrence fails, to degrade its ability to achieve its aims. The third is to convert China's strengths into liabilities by exposing the covert and coercive practices that underpin them.

Any strategy of competitive leverage must also account for how Beijing will react. Some reactions are precisely what the strategy seeks. Beijing may pull back from a coercive course of action, or it may find that it cannot sustain an activity at an acceptable cost. Others the strategy must carefully consider. China can retaliate, as it did with rare-earth controls in 2025.[187] It can adapt, accelerating efforts to reduce a dependency or concealing activity more effectively. Or it can escalate, particularly where pressure touches its territorial claims or wartime vulnerabilities. Beijing's own system shapes these reactions. Concentrated authority, distorted information flowing up the bureaucracy, and the political cost of reversing course make China's leaders slow to recognize problems and prone to abrupt overcorrection, which can make their responses to pressure harder to predict. The strategy outlined below is designed to make the first set of outcomes more likely and the second less damaging. It pairs pressure with preparation against retaliation, favors vulnerabilities Beijing cannot quickly fix, and calibrates the most escalatory tools to the circumstances that warrant them.

[187] Bradsher, "China Clamps Down Even Harder on Rare Earths."

Purpose

Constrain

In the late 1970s, after decades of failed Maoist economic policy, Deng Xiaoping opened China to foreign investment and technology. Four decades later, Xi Jinping could boast to the 19th Party Congress in 2017 that the Chinese nation had "stood up, grown rich, and become strong" and was "moving closer to center stage."[188] Much of that rise has rested on foreign technology, capital, and markets. Those dependencies point to competitive leverage's first purpose, which is to constrain China's ability to amass the specific forms of power that could harm the United States.

Making China poorer or weaker across the board is neither achievable nor necessarily in U.S. interests. Constraint is deliberately more targeted. The aim is to slow China's development of capabilities that most threaten the United States and its partners, and to lower the odds that Beijing could use these capabilities to achieve operational or strategic success.

Washington has already devoted considerable attention to this purpose, most notably by limiting China's access to advanced semiconductors, and widening those controls remains one of the most effective ways to pursue it. Less frontier computing power will limit China's ability to field the AI systems, precision weapons, and offensive cyber tools that could threaten the United States and its partners.

Export market dependence offers a second avenue for constraint. Coordinated pressure on China's access to foreign markets would undercut its bid to dominate the critical sectors and advanced technologies that will shape military and economic advantage in the coming decades. It would also limit Beijing's ability to build new sources of leverage over the United States and its allies, which could otherwise grow reliant on China for vital goods such as pharmaceuticals, electric vehicles, batteries, and robots. Outbound

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[188] Xi Jinping, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era," report to the 19th National Congress of the Communist Party of China, October 18, 2017, http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf; see also Tom Phillips, "Xi Jinping Heralds 'New Era' of Chinese Power at Communist Party Congress," *Guardian*, October 18, 2017, https://www.theguardian.com/world/2017/oct/18/xi-jinping-speech-new-era-chinese-power-party-congress.

investment screening and financial restrictions on sectors central to China's military buildup can reinforce both efforts.[189]

Constraint also serves a broader aim. By slowing China's accumulation of the most threatening capabilities, it buys time for the United States and its partners to build the necessary combined capacity to compete over the long term. But constraint only works if it is sustained. Washington has repeatedly traded restrictions away for short-term concessions, from the ZTE denial order in 2018 to the EDA controls in 2025.[190] Codifying key controls and synchronizing them with allies would help ensure that constraint delivers lasting results.

Deter and Degrade

The second purpose of competitive leverage is to deter Beijing's most serious acts of military, economic, or political aggression and, if deterrence fails, to degrade its ability to achieve its aims. Deterrence rests on prepared, credible options to impose costs that Beijing judges would outweigh the gains of aggression. Degradation uses those same options to weaken China's position once a crisis or conflict is underway. This leverage need not be used right away, but developing the tools now would ensure that the United States is ready to act, and that Beijing knows it.

Xi Jinping's approach to Taiwan and other potential acts of aggression is tied to his broader ambitions for China's development, national rejuvenation, and regional primacy. Beijing is most likely to escalate when its leaders believe they can achieve their objectives at acceptable cost. A strategy that identifies and prepares credible ways to exploit China's vulnerabilities can alter that calculation in three ways. First, by reinforcing constraint, pressure applied now can slow China's progress toward the point at which Beijing believes it has the power to act more aggressively. Second, credible options to disrupt key sectors of China's economy, stress its external dependencies, or strain the systems Beijing relies on for control can raise the expected costs of aggression, even if China's leaders believe they hold a local military advantage. Third, if conflict occurs, prepared tools can weaken the PLA's operational position,

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[189] On pharmaceuticals, see Marta Wosińska and Yihan Shi, "U.S. Drug Supply Chain Exposure to China," Brookings Institution, July 28, 2025, https://www.brookings.edu/articles/us-drug-supply-chain-exposure-to-china/; on batteries, see International Energy Agency, *Global Supply Chains of EV Batteries* (Paris: IEA, July 2022), https://www.iea.org/reports/global-supply-chains-of-ev-batteries; on robotics and other advanced industries, see ITIF, *Hamilton Index, 2026*.

[190] Swanson, "U.S. Lifts Ban That Kept ZTE from Doing Business with American Suppliers"; "Tech War: US Lifts Export Control of Chip Design Software to China."

impose costs beyond the immediate battlefield, and help bring the war to a more favorable conclusion for the United States and its allies.

China's dependencies offer numerous levers for deterrence, but only if Beijing believes U.S. options exist and that Washington would use them. In several important areas, U.S. leverage of this kind remains too underdeveloped to be credible.[191] Washington could, for example, use China's dollar dependence to deter aggression by making clear which actions would trigger serious financial consequences, with options that escalate in severity depending on China's behavior. Leverage over China's energy imports and industrial inputs works the same way, as latent pressure that Beijing must weigh when calculating the costs of aggression. That pressure is particularly meaningful because almost any regional war could be protracted, making production and economic endurance decisive.[192] Sovereignty disputes contribute in a different way. Allied presence, rapid exposure of incidents, and partners' own pushback can raise the risks of coercion in contested areas before it escalates into something larger.

Degradation comes into play if deterrence fails. Should Beijing accept the known costs and act anyway, the same prepared options can be used to weaken China's ability to achieve its aggressive aims. Financial measures could cut into China's wartime economy and military production, and energy interdiction could strain its fuel supplies, forcing Beijing to ration between civilian and military needs while searching for alternatives. This report treats deterrence and degradation together because they rely on the same tools. Dollar and financial exposure, energy imports, industrial inputs, and sovereignty disputes serve both purposes.

Convert

The third purpose of competitive leverage is to convert Beijing's strengths into liabilities by exposing the covert, coercive, and reputationally fragile practices that underpin China's influence abroad. Beijing's overseas influence operations, its propaganda apparatus, and its elites' offshore wealth all depend on remaining hidden or unattributed.

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[191] On the credibility required for economic deterrence, see Vest and Kratz, "Sanctioning China in a Taiwan Crisis"; Kilcrease, *Hit It with Your Best Shot*.
[192] Jones, *Empty Bins*; Mark F. Cancian, Matthew Cancian, and Eric Heginbotham, *The First Battle of the Next War: Wargaming a Chinese Invasion of Taiwan* (Washington, DC: CSIS, January 2023), https://www.csis.org/analysis/first-battle-next-war-wargaming-chinese-invasion-taiwan.

Exposure works in several ways. It can raise the costs of these activities enough that Beijing scales them back, and it weakens their effect while rallying their targets to respond. An influence operation loses its value once the officials, institutions, or communities it depends on begin to resist. A propaganda narrative loses its force once its audience can see the gap between what Beijing claims and what it does. Offshore wealth loses its safety once it draws the attention of foreign journalists and governments positioned to act on it. In each case, exposure undercuts what Beijing is trying to accomplish and turns its intended targets into sources of resistance.

Posture

Deciding when to exploit any of China's vulnerabilities will depend on the state of U.S.-China relations, the severity of China's aggression, the strength of the coalitions involved, and how well the United States is prepared for retaliation. With those factors in mind, we sort the nine vulnerabilities into three postures as a starting point. Some can be used now, at manageable cost, in ordinary peacetime competition. Others are severe enough that they should be held in reserve for more extreme circumstances. A third group straddles the two, usable selectively in peacetime and more forcefully in a crisis.

Four of the nine focus vulnerabilities can be pressed now, in ordinary peacetime competition.[193] They are China's dependence on advanced semiconductors, the corruption of its elites, its overseas influence operations, and its credibility gap. If U.S.-China relations grow more tense or China takes aggressive action, policymakers can intensify pressure on any of them, with the degree of pressure calibrated to the threat Beijing poses to U.S. and allied interests at the time.

Three other vulnerabilities belong at the opposite end of the spectrum. Pressing China's dollar and financial exposure, energy imports, and industrial inputs at full scale would have effects too severe for routine use and would be escalatory from the outset. In the dollar's case, the repercussions would ripple through much of the global financial system. These options should therefore be conceptualized, prepared, rehearsed, and credibly signaled in advance, but mostly held in reserve for extreme circumstances.

Options held in reserve are useful only if they are ready when needed. That is why many of the recommendations in Part III emphasize preparation and practice. Waiting

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[193] "Use now" denotes vulnerabilities that policymakers could begin exploiting in the current peacetime environment without incurring major risks, either because doing so is not highly escalatory or because the U.S. government already has the necessary policy instruments in place.

for a crisis to build these tools might make it easier to rally political support and allies, but it would leave Washington as unprepared as it was during the 2025 trade war. Doing the hard work now would show Beijing that the United States can act at a moment's notice, which is what gives these reserve options their deterrent value.

Two vulnerabilities, export market dependence and sovereignty disputes, straddle these postures. Both should be pressed selectively in peacetime and more forcefully in a crisis. Two considerations argue against exploiting them fully in peacetime. The first is the risk of unintended escalation. The second is the need for allied coalitions that move in step and share the same view of the threat from China, whether in the trade arena or on the high seas.

What This Strategy Is For

This strategy of competitive leverage takes no position on whether China has peaked or will continue to rise, or on the future course of U.S.-China relations. It is designed to give policymakers useful options across the full spectrum, from peacetime competition to crisis and conflict. Its three purposes improve America's position regardless of the state of bilateral relations or the trajectory of China's economy, because each is aimed squarely at curbing China's ability to threaten core U.S. interests. Constraint slows the development of capabilities that could challenge the United States or endanger its forces. Deterrence and degradation aim to dissuade Beijing from aggression and, if it proceeds anyway, to undermine its chances of success. Conversion erodes the covert and coercive practices that extend China's malign influence abroad.

Figure 3 summarizes the purpose, posture, and next steps for each of the nine vulnerabilities.

Figure 3. A Campaign Plan for Exploiting Each Vulnerability

Vulnerability	Type	Purpose	Posture	Next Steps
Advanced Technology Dependence	External dependency	Constrain	Use now	Synchronize controls on equipment sales, servicing, and subcomponents with the Netherlands and Japan, using the Foreign Direct Product Rule if diplomacy fails; close loopholes involving subsidiaries, smuggling, cloud access, and servicing; extend Entity List restrictions to affiliates; impose industry-wide EDA controls; codify key controls in law; prepare aerospace and enabling technology

				controls with key European partners and hold them in reserve
Dollar and Financial Exposure	External dependency	Deter and degrade	Prepare now; reserve for crisis	Build the full escalation ladder, from small lenders to SDN designation of the largest banks and the People's Bank of China; prepare authorities to immobilize central bank reserves; agree on thresholds with allied financial centers; stress-test U.S. institutions and coordinate liquidity arrangements with allied central banks
Energy Import Dependence	External dependency	Deter and degrade	Prepare now; reserve for crisis	Study China's response to the 2026 Hormuz disruptions; prepare maritime sanctions on shippers, insurers, and energy majors; establish a multinational coordination cell to monitor China-bound shipping; plan and exercise interdiction; begin quiet exploratory discussions with Australia, Japan, the Philippines, and Singapore; identify alternative supplies and routes for allies
Industrial Input Dependence	External dependency	Deter and degrade	Prepare now; reserve for crisis	Assess supply control, Chinese stockpiles, substitutes, and recovery times for each input; cushion partners against retaliation through offtake agreements, stockpile purchases, and investment in processing outside China; begin quiet discussions with Australia, Chile, and Peru; prepare legal authorities to act quickly
Export Market Dependence	External dependency	Constrain	Use selectively now; escalate in crisis	Assemble a coalition of advanced and developing economies; coordinate tariffs on strategic sectors; negotiate high-standard trade agreements; strengthen rules of origin and share customs data; coordinate outbound investment screening; offer incentives to vulnerable partners
Sovereignty Disputes	Strategic overextension	Deter and degrade	Use selectively now; escalate in crisis	Build shared maritime domain awareness and low-cost autonomous capacity for partners; support partner pushback against incremental encroachment; move toward a "Senkaku model" recognizing partner-administered features; sustain allied operations near Taiwan; speed collective publicizing of incidents; sanction implicated vessels, firms, and officials

Influence Operations	Strategic overextension	Convert	Use now	Build a persistent attribution capability; harmonize foreign agent transparency regimes across Five Eyes partners and the EU; assist partners with weaker oversight; prosecute operatives under FARA and 18 U.S.C. § 951; prosecute diaspora coercion; close remaining overseas police stations
Credibility Gap	Inherent contradiction	Convert	Use now	Designate a lead agency or White House coordinator for information competition; identify and publicize gaps between Beijing's messaging and its behavior, including translated nationalist content; restore funding for international broadcasting; support diaspora journalism; coordinate with allied foreign ministries
Corruption	Inherent contradiction	Convert	Use now	Map offshore holdings of senior officials, military officers, and their families; pursue illicit proceeds under anti-money-laundering statutes; impose Global Magnitsky sanctions and visa bans; surface findings through independent journalists; share leads with allied financial intelligence units

Conclusion

"Between the idea and the reality," T.S. Eliot wrote, "Falls the Shadow."[194] A long shadow falls across America's competitive strategy toward China, in the gap between Washington's ambition to outcompete China and the strategy it has developed to do so. With its focus on self-strengthening, Washington's approach has failed to reflect the relational nature of competition. The outcome of that competition will depend not only on what the United States builds, alone and with its partners, but also on how it uses its considerable leverage against China's most destabilizing behavior. Beijing has been doing both, fortifying its own strengths while exploiting U.S. vulnerabilities, eroding America's strategic position, and using coercive leverage to shape the competition on its terms.

For more than a decade, China has grown stronger and more assertive, militarizing the South China Sea, intimidating U.S. treaty allies such as Japan and the Philippines, and punishing countries that defy its preferences. U.S. officials and strategy documents have rightly identified China as the foremost challenge facing the United States, but Washington's actions have too often fallen short of its rhetoric. Beijing's weaponization of critical minerals in 2025 was only the latest episode to expose that gap. The United States must continue reducing its dependence on China and rebuilding U.S. and allied strength. But it must also build and wield competitive leverage of its own.

U.S. strategy toward China should not seek confrontation for its own sake. Competitive leverage is a disciplined tool that gives Washington the means to deny China pathways to coercive power, impose costs on aggression, and expose the covert and coercive practices behind Beijing's malign influence. The challenge lies in distinguishing usable leverage from dangerous temptation, since many of China's weaknesses are too risky, too costly, or too resistant to outside pressure to exploit. Washington has lacked the tools for this task and, just as important, a framework for identifying China's vulnerabilities, judging which are worth exploiting, and matching the right instruments to each in ways that build durable leverage over the long haul.

No single instrument will be decisive. In building this leverage, Washington will gain the most by applying coordinated pressure across many domains and over different time horizons. A forward-looking approach will be important, since U.S. policymakers must build leverage not only around China's dependencies today but also around tomorrow's chokepoints in quantum computing, biotechnology, and energy

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[194] T. S. Eliot, "The Hollow Men," pt. V, in *Poems, 1909-1925* (London: Faber and Gwyer, 1925).

technologies. The toolkit will also evolve, and some instruments have yet to be conceived.

This strategy will face foreseeable objections, but in most cases the answers to them strengthen the case for competitive leverage. Perhaps the leading objection is that exploiting China's vulnerabilities is too risky, because the United States and China are more economically interdependent than any pair of great-power rivals in history.[195] That interdependence is real, which is why Part IV reserves the most potent instruments for crisis and conflict. But mutual exposure argues for calibrated pressure. Beijing has long exploited that same interdependence to pressure the United States and its partners.

A related objection is that pressing China's vulnerabilities risks provoking retaliation or escalation. That risk is real, too, and Part IV is designed around it, pairing pressure with preparation against retaliation and reserving the most escalatory tools for the circumstances that warrant them. But Beijing already retaliates and escalates against the United States and its partners when it judges the moment right, and Washington's lack of leverage has made those moves less costly for China. Prepared, credible options can reduce the risk of conflict by making aggression look less attractive in Beijing's calculations.

A third objection is that the United States cannot be expected to sustain a patient, calibrated campaign when its foreign policy can shift sharply with each change of administration. That concern raises the larger question of whether Washington can still conduct grand strategy, a debate beyond the scope of this report. But competitive leverage should not and need not depend on the whims of one administration. Congress can help lock in a more competitive architecture by codifying the core frameworks and initiatives needed to build leverage over China, including multiyear funding for the relevant offices and initiatives as well as stronger oversight of technology controls and investment restrictions.

A fourth objection is that exploiting China's vulnerabilities is ultimately a wasting asset. Each time Washington restricts Beijing's access to the dollar or to advanced semiconductors, it reminds China and other U.S. adversaries to reduce their exposure to U.S. and allied chokepoints and accelerates their drive for self-sufficiency. Yet in many cases, such as its pursuit of energy security, Beijing is already racing toward these goals regardless of what Washington does. U.S. pressure can make that pursuit slower and

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[195] Farrell and Newman, "Weaponized Interdependence"; for U.S.-China goods trade, see U.S. Census Bureau, "Trade in Goods with China," https://www.census.gov/foreign-trade/balance/c5700.html.

more costly, and the vulnerabilities this report prioritizes were selected in part because Beijing cannot quickly resolve them. Where a source of leverage can realistically be used only once, we recommend reserving it for actions that gravely threaten U.S. interests.

A final objection concerns allies. Many of these efforts depend on close coordination with partners, and the Trump administration's disruption of long-standing partnerships and its war in Iran have complicated the prospects for collective action. Allied frustration, however, need not permanently outweigh shared interests in addressing the economic and security threats China poses. Building these coalitions will require framing competitive leverage in terms of partners' own vital interests, including preserving their sovereignty, protecting their industries, and strengthening their national resilience.

A Call to Action

The United States has navigated great-power rivalries before. In the most consequential of them, it pressed on its rival's weaknesses while building its own strength. Like the rivalries that preceded it, the U.S.-China competition will be shaped by which country better strengthens itself and which better identifies and exploits its rival's vulnerabilities. China is already doing both. Washington has largely embraced self-strengthening, while competitive leverage has received far less attention. Advancing the security and prosperity of the American people, however, will require a strategy built on both pillars. Our aim is for this report to serve as a launchpad for future efforts to fill this critical lacuna in U.S. strategy.

Annex A: Catalog of China's Vulnerabilities

This catalog documents 52 vulnerabilities facing China, organized by domain for ease of reference. It draws on Chinese government documents, independent data, and secondary literature, as well as interviews with U.S. experts, including former government officials and private sector stakeholders, and workshops with analysts across the Indo-Pacific. Each entry describes the weakness and its consequences for Beijing. The catalog does not address purely military vulnerabilities, such as the PLA's operational and logistical limitations, which are routinely assessed in U.S. military planning and intelligence work. Figures are approximate and meant to convey scale. Sources for the nine vulnerabilities examined in depth appear in the notes to Part III. It is organized as follows:

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1. Economy

Slowing Growth

After decades of double-digit expansion, China's GDP growth has slowed to less than half that pace. Absent major reforms, it is projected to slow even further as China's population ages, debt accumulates, and productivity growth weakens. Growth has also become lopsided, with technology manufacturing and exports expanding while domestic consumption and investment stagnate, leaving the economy more dependent on foreign demand. China also risks falling into the "middle-income trap," in which growth stalls before a country reaches developed-world living standards. While China's per capita income is nearing the World Bank's high-income threshold, it remains a fraction of the level in advanced economies. Slower growth limits Beijing's ability to deliver rising living standards, a core source of the Party's legitimacy, and constrains fiscal capacity for social services, innovation, military modernization, and foreign policy initiatives. It also raises the risk that citizens accustomed to growth and opportunity begin questioning the bargain of authoritarian rule in exchange for diminishing economic gains.

Weak Household Consumption

Household consumption accounts for only about 40 percent of China's GDP, well below the share in the United States and other major economies, and low even by developing-country standards. For decades, China's growth model channeled resources toward investment and exports at households' expense, through low interest rates on savings, a thin social safety net that encourages precautionary saving, and wages that have grown more slowly than the economy. The property downturn has since eroded household wealth and confidence, making consumers more cautious still. Beijing has called for boosting consumption for two decades and has introduced consumer subsidies, trade-in

programs for cars and appliances, and childcare support, but these measures have been modest relative to the scale of the imbalance. Raising consumption substantially would require shifting income from state firms, local governments, and industry to households, which cuts against the Party's preference for state-directed investment. Without that shift, China will continue to rely on investment and exports for growth, adding to debt at home and trade friction abroad.

Property Crisis

China's property sector, which once drove record urbanization and economic growth, was inflated for years by speculative investment and debt-financed construction. Real estate and related industries accounted for roughly a quarter of GDP at their peak, so the downturn that began in 2021 has weighed heavily on the broader economy. Major developers including Evergrande and Country Garden have defaulted, new-home prices have fallen for years, and new construction has dropped sharply. The slump has not produced an acute financial crisis, but because property is the primary savings vehicle for Chinese families and land sales fund local governments, it is steadily eroding household wealth, local government revenues, and the balance sheets of financial institutions. A prolonged decline could hollow out China's middle class and destabilize the banking system, potentially triggering a financial crisis.

High Debt Levels

China's debt burden, spread across corporations, local governments, and households, has grown to levels that increasingly strain the economy. Total debt now exceeds 300 percent of GDP, with corporate debt (especially that of state-owned enterprises and property developers) and local government financing vehicles (LGFVs) making up the bulk. Local governments long relied on land sales to service their debts, and the property downturn has sharply reduced that revenue. Beijing's 2024 program to swap trillions of yuan in hidden local debt into official bonds eases near-term repayment pressure but leaves the overall burden in place. Servicing this debt already consumes resources that could otherwise fuel productive investment and innovation. High debt also increases China's exposure to economic shocks and constrains Beijing's ability to use stimulus without adding to the burden.

Deflation and Excess Capacity

China faced persistent deflationary pressure for more than three years as weak domestic demand, the property downturn, and over-leveraged local governments depressed spending and investment. Producer prices fell year over year, consumer

prices hovered around zero, and the GDP deflator, the broadest measure of prices, stayed negative for years. Price increases driven by external shocks, such as a spike in oil prices, do not resolve the underlying weakness in domestic demand. The property market is still contracting, household demand remains weak, and chronic overcapacity persists across industry, as Beijing tacitly acknowledged with its 2025 campaign against "involution," the price wars that have eroded margins in many sectors. Renewed deflation would raise the real burden of China's debt, cut into corporate margins, and risk a Japan-style period of stagnation. Excess capacity also pushes Chinese firms to sell surplus output abroad at discounted prices, worsening trade relations with partners.

Declining Productivity

After decades of gains driven by rural-to-urban migration, large-scale infrastructure investment, and integration into global supply chains, China's productivity growth has slowed sharply. Total factor productivity growth, which measures how efficiently an economy uses capital and labor, has fallen to a fraction of its pace in the 2000s. Much of the slowdown reflects capital misallocation. State lenders continue steering credit to state-owned enterprises, local government projects, and favored industries with low returns. Each additional unit of growth now requires far more investment than it did two decades ago. An aging workforce and the slowing of rural migration have also removed earlier sources of gains. Slowing productivity accounts for much of the decline in China's potential growth. Without a recovery in productivity, China will have to rely on ever more debt-financed investment to sustain growth, eroding its long-term competitiveness.

Income Inequality

Despite government rhetoric about "common prosperity," income and wealth in China remain highly unequal. Hundreds of millions of citizens have been lifted out of poverty since the reform era began, but the benefits have been unevenly distributed. China's official Gini coefficient, a standard measure of income inequality, has eased from its peak in the late 2000s but remains among the highest in Asia, and urban incomes are more than double rural incomes. Wealth is even more concentrated than income, with many middle- and working-class households facing stagnant wages, high living costs, and falling property values. High inequality dampens domestic demand because income is concentrated among households that spend a smaller share of what they earn, which undercuts Beijing's stated goal of shifting toward consumption-led growth. It also widens the gap between the Party's promises of shared prosperity and what many citizens experience, eroding CCP legitimacy.

Youth Unemployment

Youth unemployment in China has risen to levels that Beijing has struggled to contain. The jobless rate for urban 16- to 24-year-olds exceeded one in five in 2023, after which authorities suspended publication and revised the methodology to exclude students. Even under the narrower measure, the rate has remained high. The slowing economy, regulatory crackdowns on technology and private education firms, weak consumption, and the property downturn have reduced hiring, while upward of 10 million college graduates enter the labor market each year. Many face a mismatch between their qualifications and the jobs available to them. A generation of educated but underemployed young people poses risks to social stability and long-term productivity, and persistent joblessness weakens household consumption.

Prioritizing Security over Development

Beijing's growing emphasis on security, and above all on protecting the CCP's hold on power, comes at the expense of economic openness and growth. Xi Jinping's "holistic national security concept" extends security considerations into nearly every area of policy, including the economy. Xi's predecessors, Deng Xiaoping and Jiang Zemin, treated growth as the foundation of security. Xi has inverted the hierarchy and treats security as the precondition for growth. In practice, this has meant an expanded counter-espionage law, raids on foreign due diligence and consulting firms, exit bans on foreign executives, and new data controls that make ordinary business activity legally risky. Entrepreneurs fear crackdowns and detentions, and local governments have less room to experiment economically. These measures have contributed to a steep drop in foreign investment and stifled private enterprise. Over time, the securitization of economic policy will undermine China's economic dynamism and international competitiveness.

2. Trade and Finance

Export Market Dependence

China's growth model depends heavily on foreign demand. Manufacturing accounts for a far larger share of China's GDP than the world average, and China produces nearly a third of the world's manufactured goods. Because household consumption has not kept pace with industrial output, Beijing relies on overseas markets to absorb surplus production and sustain employment and growth. Beijing has doubled down on exports, running record trade surpluses as exports grow and imports stagnate. Exports grew even as shipments to the United States fell, with Chinese firms redirecting goods to

Southeast Asia, Africa, and Latin America. Foreign markets also serve as the vanguard for China's push to dominate the industries of the future, from electric vehicles to advanced batteries. This reliance on market access China cannot control leaves it exposed to protectionist measures and supply chain shifts, and Chinese overcapacity is generating backlash from advanced and developing economies alike. Coordinated trade restrictions by major economies would force factory closures, trigger corporate debt defaults, and place acute political pressure on the regime.

Dollar and Financial Exposure

The U.S. dollar touches nearly every dimension of China's international economic activity. Most of China's international trade is dollar-denominated or passes through dollar-based financial institutions, China carries substantial dollar-denominated debt, and a large share of its foreign exchange reserves, the world's largest, is held in dollars. Beijing has promoted the renminbi abroad and built the Cross-Border Interbank Payment System (CIPS) as a partial workaround to dollar clearing, but these efforts have done little to reduce China's reliance on the dollar-based financial system. Genuine internationalization of the renminbi would require loosening capital controls and enacting legal and institutional reforms that would weaken the Party's grip on the financial system. So far, Beijing has resisted those steps, in part because of the massive capital flight that followed the 2015 devaluation. China cannot run a tightly controlled financial system and a globally trusted reserve currency at the same time. Its dollar dependence leaves its banks, trade, and elite wealth exposed to U.S. and allied financial sanctions, and fragilities at home, including heavily indebted local governments and the property downturn, would magnify the damage from any severe restriction on dollar access.

Tech Firms' Exposure Abroad

China's leading technology firms increasingly depend on overseas markets for growth, which exposes them to regulatory, security, and political pushback abroad. Huawei lost much of its international smartphone business after the United States placed it on the Entity List in 2019, and several European governments have restricted or phased out its equipment in their 5G networks. A 2024 U.S. law forced the restructuring of TikTok's U.S. operations, the Commerce Department has barred Chinese software and hardware from connected vehicles sold in the United States, and firms such as ZTE, DJI, and Hikvision, whose surveillance cameras feature in the "safe city" systems China markets abroad, face restrictions in the United States and allied countries. Much of this pushback stems from Chinese laws, including the 2017 National Intelligence Law, that obligate companies to cooperate with state intelligence work. These laws make it

difficult for Chinese firms to persuade foreign governments that they operate independently of the Party. For Beijing, the restrictions reduce the revenues and market share of national champions, limit their access to the data and scale needed to compete in emerging technologies, and erode an avenue for building influence abroad.

Dual Circulation's Isolation Risks

China's dual circulation strategy, introduced in 2020, seeks to insulate the economy from external shocks by boosting domestic demand and reducing dependence on foreign technology, capital, and markets, while deepening other countries' dependence on China. In a 2020 speech, Xi Jinping called for tightening international production chains' dependence on China so that Beijing could deter and retaliate against any foreign attempt to cut off its supplies. The approach reflects Beijing's desire for resilience amid U.S. export controls and global fragmentation, but it carries significant risks of economic isolation. China's growth since the 1980s has been powered by foreign trade, investment, and integration into global supply chains, and a turn toward self-reliance could choke off the very dynamism that fueled its rise. Beijing's weaponization of rare earths in 2025 showed the strategy's coercive value, but it has also accelerated de-risking by the United States, Europe, and Japan. If China prioritizes internal circulation too heavily, it risks stunting productivity gains, reducing competitiveness, and alienating foreign investors.

3. Technology and Innovation

Semiconductor Dependence

Advanced semiconductors are essential to China's ambitions in AI, precision weapons, and cyber capabilities, and to its climb toward high-margin industries, yet the critical nodes of the chip supply chain lie outside Beijing's control. U.S. firms design the most advanced chips and capture roughly half of global industry revenue, Taiwan dominates leading-edge fabrication, the Dutch firm ASML holds a monopoly on extreme ultraviolet (EUV) lithography, and Japanese firms dominate the world's photoresist supply. China cannot reliably produce chips at the leading edge, its fabrication equipment is almost entirely foreign-made, and it depends on U.S. firms for electronic design automation software and its most advanced AI chips. Since 2022, U.S. and allied export controls have constrained China's AI chip production, leaving the United States with a commanding lead in producing AI computing power. But Beijing is racing to close the gap. It has expanded mature-node production, built increasingly capable domestic equipment, released open-source AI models that rival leading U.S. systems, and is working to develop its own EUV machine. Commercializing advanced

lithography at scale, however, is likely years away. In the meantime, China will rely on a large stockpile of foreign deep ultraviolet immersion lithography systems imported under partial controls. This dependence constrains Beijing's ambitions for technological self-reliance, economic upgrading, and military modernization.

Aerospace Dependence

China's commercial aviation ambitions rest heavily on Western technology. Its flagship C919 narrow-body airliner, built by the state-owned Commercial Aircraft Corporation of China (COMAC), relies on LEAP-1C engines from CFM International, a joint venture of GE Aerospace and France's Safran, and on U.S. and European suppliers for avionics, flight controls, landing gear, and other core systems. China's domestic CJ-1000A engine remains in testing and is likely years from certification and reliable production. Chinese airlines also depend on Boeing and Airbus for most of their fleets and on Western firms for spare parts and maintenance. The dependence threatens Beijing's goal of building a globally competitive aircraft industry and slows progress in an aerospace sector whose suppliers and engineers also serve China's military.

Enabling Technology Dependence

China's manufacturers rely heavily on Japanese, German, and other foreign suppliers for high-precision machine tools, and its laboratories and production lines depend on imported high-end scientific instruments and specialty materials. Chinese firms also rely on industrial design and simulation software from Western companies such as Siemens and Dassault Systèmes. Despite heavy state support, domestic suppliers still trail foreign competitors in precision and reliability, and many Chinese firms continue to buy foreign products. Many of these technologies appear on the list of "stranglehold technologies" Chinese officials identified in 2018 as critical foreign dependencies. Reliance on foreign enabling technologies leaves China's industrial upgrading exposed to export controls and limits its ability to achieve the self-reliance Beijing has made a central goal.

Underdeveloped Basic Research

China has become a leader in applying and scaling technology, but its capacity for foundational breakthroughs remains limited. Chinese institutions now lead the world in scientific publications, yet that output has not translated into a proportionate share of original discoveries. China spends more on research and development than any country except the United States, but only a small share of that spending goes to basic research, roughly half the share in the United States. Party control over universities and research

institutes discourages risk-taking and open inquiry, state funding often favors near-term applied projects over exploratory work, and weak intellectual property enforcement reduces the payoff from original discoveries. Together, these constraints limit China's ability to achieve breakthroughs that spark new industries and set global standards.

4. Energy, Resources, and Environment

Energy Import Dependence

China is the world's largest importer of crude oil and one of its largest importers of natural gas. It imports roughly three-quarters of its crude oil, about 90 percent of it by sea, much of it through the Malacca, Lombok, and Sunda Straits. Although China's vehicles increasingly run on electricity and liquefied natural gas (LNG), its oil demand remains near record levels, driven by the petrochemical industry that supplies its export and infrastructure sectors. China also imports large volumes of LNG along the same sea routes, and because most global LNG is sold under long-term contracts, little spare supply would be available to replace lost cargoes in a crisis. Since Hu Jintao warned of China's "Malacca dilemma" in 2003, Beijing has diversified suppliers, built pipelines from Russia and Central Asia, expanded domestic coal production, and electrified much of its transportation sector. Strategic and commercial petroleum reserves now provide several months of import cover, and China has proven more resilient to oil shocks than many experts anticipated. These measures would help China absorb a temporary disruption, but a sustained blockade aimed at China would outlast its reserves, and coal and renewables cannot replace oil and gas in aviation, shipping, military operations, or most petrochemical production.

Industrial Input Dependence

China's industrial base depends on raw materials it does not control at the point of extraction. China imports most of the iron ore that supplies its steel industry, mostly from Australia, and sources most of its copper and lithium, critical to battery and defense manufacturing, from Australia, Chile, and Peru. Many of these suppliers are U.S. allies or partners, and their control over extraction offsets some of the leverage Beijing wields through its dominance of critical mineral processing and refining. China also remains import dependent in some commodities it is assumed to dominate. It smelts about half the world's copper but mines only a small fraction of the raw concentrate its smelters consume. When copper supply has tightened, Chinese smelters' margins have collapsed and leading firms have had to cut output. Beijing has made significant headway in securing supplies, and new domestic and overseas iron ore

sources are expected to reduce its import dependence substantially in the coming years. These efforts may reduce China's exposure over time.

Food Import Dependence

China is the world's largest food importer. With nearly a fifth of the world's population and less than a tenth of its arable land, China imports more than 80 percent of the soybeans it consumes, mostly to feed livestock, and buys well over half of all soybeans traded worldwide. Brazil supplies most of these imports and the United States much of the remainder, nearly all of it by sea. Beijing has made food security a central priority under Xi Jinping, enacting a Food Security Law in 2024 and maintaining large state grain reserves. China is largely self-sufficient in rice and wheat, but shrinking and degraded farmland, water scarcity, and rising demand for meat leave it dependent on foreign suppliers for animal feed and edible oils. A sustained supply disruption would drive up food prices, a politically sensitive matter for a Party whose legitimacy rests on rising living standards. Beijing's shift toward Brazilian suppliers, and its halt to U.S. soybean purchases during the 2025 trade dispute, show that it can change suppliers but has not reduced its overall dependence on imports.

Water and Resource Scarcity

Four decades of rapid industrialization and urbanization have made China the world's largest consumer of coal, steel, cement, and many other resources, and have strained its natural endowment. Water is the most acute constraint. China has nearly a fifth of the world's population but only about 6 percent of its freshwater. Its per capita supply is roughly a quarter of the global average. The shortage is concentrated in the north, which holds most of China's farmland and much of its heavy industry but only a fraction of its water. Decades of overpumping have depleted groundwater across the North China Plain and caused land subsidence in Beijing and other cities. Beijing has spent tens of billions of dollars on the South-North Water Transfer Project to move water from the Yangtze basin. Scarce water raises costs for agriculture, power generation, and water-intensive industries such as coal, steel, chemicals, and semiconductors, and it forces the government into increasingly difficult tradeoffs among them.

Environmental Degradation

Rapid industrialization has left China with severe air, soil, and water pollution. Air quality has improved substantially since Beijing declared a "war on pollution" in 2014, but average fine-particulate concentrations in most Chinese cities still far exceed World

Health Organization guidelines. Heavy metals such as cadmium contaminate large areas of farmland, and pollution continues to degrade rivers and groundwater. Climate change is adding to these pressures through more frequent floods, droughts, and heat waves, as when a 2022 drought cut hydropower output in Sichuan and forced factory shutdowns. Pollution and environmental disasters raise healthcare costs, reduce agricultural output and labor productivity, and periodically spark local protests. Because the effects are visible in daily life, environmental conditions are a direct test of the Party's claim to govern competently.

5. Demographics and Human Capital

Demographic Decline

China's population is shrinking and aging rapidly. The population began declining in 2022, and the fertility rate has fallen to around 1.0, one of the lowest in the world and far below the replacement rate of 2.1. Beijing's efforts to encourage childbearing, from ending the one-child policy to introducing a national childcare subsidy in 2025, have not reversed the decline, as families cite high housing, healthcare, and education costs alongside changing social expectations. The working-age population peaked around 2015 and is projected to shrink dramatically by mid-century, reducing the supply of labor that fueled four decades of rapid industrial growth. Over the same period, the population over 65 is projected to grow sharply, placing heavy strain on pensions, healthcare, and social services. In response, Beijing has begun gradually raising the retirement age for the first time since the 1950s. Fewer workers and more retirees will weigh on growth, consumption, and fiscal capacity, and a shrinking pool of young people will force harder tradeoffs between social spending and defense.

Gender Imbalance

Decades of the one-child policy, son preference, and sex-selective abortion have produced a large gender imbalance in China. The 2020 census counted about 35 million more men than women. The surplus is concentrated among less educated men in poorer rural areas, many of whom struggle to find spouses. That shortage has fueled the trafficking of women from neighboring countries. Fewer potential couples contribute to falling marriage rates, with registered marriages falling steeply, which further depresses births. Large populations of unmarried young men are also associated with higher crime and social instability.

Undereducated Workforce

China's workforce is less educated than its economic ambitions require. A large share of China's labor force has not completed high school, creating a lower level of educational attainment than in many middle-income economies and far below that of countries that have reached high-income status. The gap is concentrated in rural areas, where schools are weaker, many children are raised by grandparents while their parents work in cities, and poor nutrition and health hold back learning. The education system widens the gap. Students are sorted at about age 15, with roughly half sent to vocational schools of uneven quality, and university admission through the gaokao favors urban families who can afford tutoring and better schools. As automation and economic upgrading reduce demand for low-skilled labor, many of these workers may struggle to find stable, well-paid employment, slowing China's transition to a high-income economy.

Brain Drain

China's push to become a global innovation leader is undercut by the loss of talent and capital abroad. Many of China's most capable students and researchers study overseas, and a large share of the strongest do not return. Researchers who completed their undergraduate education in China make up a substantial portion of the top AI talent working in the United States. Political tightening under Xi Jinping has added a second outflow. Since the COVID-19 lockdowns and the crackdowns on private technology and education firms, growing numbers of entrepreneurs, professionals, and wealthy families have moved themselves and their assets abroad. These departures deprive China of innovative capacity, entrepreneurial dynamism, and investment capital. Returnees have partly offset the losses, as U.S. visa restrictions and law enforcement scrutiny of Chinese researchers have pushed some scientists back to China, but Beijing still struggles to retain those with the most options.

Restrictive Immigration

China's restrictive immigration policies limit its ability to attract foreign talent, ideas, and investment. China has long maintained some of the world's tightest barriers to permanent residence and citizenship. Its permanent residence card is notoriously difficult to obtain, and fewer than one million foreigners lived in China at the time of the 2020 census, less than 0.1 percent of the population, compared with more than 10 percent in most major Western economies. These restrictions reflect nationalism and concerns about social cohesion, and they deny China a source of skilled workers that other aging societies rely on. Beijing has tried to change course. It has expanded visa-

free entry for travelers from many countries and in 2025 launched a new visa for young foreign science and technology professionals, but the new visa drew a public backlash over competition for scarce jobs. Foreign professionals are also deterred by exit bans, an expanded counter-espionage law, and pervasive surveillance. These deterrents limit China's access to knowledge transfer and global innovation networks.

6. Governance

Party-Survival-First Mentality

The Chinese Communist Party treats its own survival as the overriding goal of governance, and that priority shapes nearly every major policy decision. Xi Jinping has drawn that lesson from the Soviet collapse, which he attributes to a party that lost its ideological conviction and had no one willing to defend it. Under his leadership, the Party has extended its control over the economy, civil society, and private business. In practice, Beijing consistently chooses control over efficiency. It favors state-owned enterprises over more productive private firms, restricts the flow of information that markets and officials need to make sound decisions, and postpones reforms, such as restructuring local government debt or strengthening the social safety net, whenever they might dilute the Party's authority. The same priority constrains foreign policy, where compromise on sovereignty or human rights is treated as a threat to the Party's legitimacy. As a result, Beijing is often unwilling to pursue reforms that would help the country and its people if they threaten the Party's dominance.

Xi Jinping's Centralization of Power

Since taking power in 2012, Xi Jinping has dismantled the collective leadership norms that governed China after Mao. He was designated the Party's "core" in 2016, abolished presidential term limits in 2018, secured a third term as Party leader in 2022, and filled the Politburo Standing Committee with loyalists. He also chairs many of the Party commissions that now direct policy in areas from finance to national security. This concentration of authority allows rapid mobilization behind Xi's priorities, but it also concentrates risk. Policy now depends heavily on one leader's judgment. Few officials are positioned to challenge him, and mistakes can persist until Xi himself changes course, as when China maintained strict zero-COVID controls for nearly three years before abandoning them abruptly in December 2022.

Lack of Succession Planning

Xi Jinping has not designated a successor, and the norms he dismantled were the main mechanism for ensuring orderly transfers of power. After Mao's death set off a struggle for power, Deng Xiaoping and his successors introduced term limits, retirement ages, and the practice of elevating a designated heir to the Politburo Standing Committee well in advance. Hu Jintao joined the Standing Committee a decade before becoming Party leader, and Xi five years before. Xi, now in his seventies, has broken this pattern. No member of the current Standing Committee appears positioned to succeed him, and the Party has no institutionalized process for choosing a successor. If Xi's rule comes to a sudden end for health or political reasons, the transition could set off a destabilizing struggle among elites. Even before then, uncertainty about who will follow Xi encourages officials to hedge and build factional alliances, and it raises questions about the reliability of China's long-term commitments to foreign governments and investors.

Over-Centralized Economic Policymaking

Under Xi Jinping, economic decision-making has shifted from ministries, markets, and local governments toward the Party center. New Party bodies created in 2023, including the Central Financial Commission and the Central Science and Technology Commission, now direct policy in finance and technology. Capital increasingly flows according to political priorities, as state banks and government guidance funds channel credit to sectors and firms Beijing favors, often producing overcapacity and low returns. Private firms, which account for more than 80 percent of urban jobs, have lost ground as a result, and private investment has stagnated. Beijing has also curtailed the local experimentation that drove reform under Deng Xiaoping and his successors, when provinces and special economic zones piloted policies that were adopted nationally if they succeeded. Local officials now tend to wait for central direction before acting. These changes give the Party greater control over the economy at the cost of efficiency, adaptability, and investor confidence.

Loyalty over Competence

Under Xi Jinping, political loyalty has become the decisive standard for advancement in the Party, military, and state. Officials must uphold the "two safeguards," which protect Xi's status as the Party's core and the authority of the Party center, and many are expected to log their study of Xi Jinping Thought on a Party app that tracks their progress. Universities, state media, and private companies face similar demands for ideological conformity. These incentives reward officials who echo the leadership's priorities and penalize those who raise problems or propose alternatives. Over time,

these incentives have sidelined capable technocrats, promoted cautious loyalists, and left the system prone to groupthink. The PLA offers a prominent example, as successive purges have removed many of the officers responsible for its modernization.

Information Distortion

Officials throughout China's vast bureaucracy have strong incentives to conceal or distort information. Career advancement depends on meeting targets set by superiors, and reporting failures or bad news can end a career or lead to investigation. The results include inflated economic statistics, hidden local government debt, and underreported pollution. During the early weeks of the COVID-19 outbreak, local authorities in Wuhan withheld information about the spread of the virus, delaying the national response. Beijing itself suspended the collection of youth unemployment figures in 2023 after the numbers became too embarrassing to ignore. Xi's emphasis on loyalty and discipline has strengthened these incentives. Distorted information leaves leaders with an inaccurate picture of conditions in the country, increasing the risk of policy errors and slow responses to crises.

Crisis Rigidity

China's political system is poorly suited to managing crises, which require accurate information, flexibility for officials closest to the problem, and a willingness to change course. Warnings are often delayed or suppressed as they move up the bureaucracy, consequential decisions wait on the top leadership, and once the center sets a direction, officials below compete to demonstrate compliance, often applying orders more strictly than conditions require. Because the Party's legitimacy rests partly on an image of competence and major policies are tied to Xi Jinping's personal authority, reversing course is politically costly and tends to happen late and abruptly. The system can mobilize enormous resources once a direction is set, but it is slow to recognize problems and slow to correct mistakes. Examples include the 2003 SARS outbreak, the 2015 stock-market crash, the 2021 Henan floods, and, most prominently, the COVID-19 pandemic. The same traits shape Beijing's conduct in international crises. Limited communication, inflexible public positions, and fear of appearing weak make de-escalation harder and raise the risk of escalation.

Conflicting Bureaucratic Jurisdictions

Despite Xi Jinping's centralization of power, China's bureaucracy remains fragmented. Central ministries, provincial and local governments, state-owned enterprises, and Party bodies often hold overlapping authority over the same issues, and each has its

own interests, budgets, and political patrons. Policies set in Beijing must be negotiated and carried out through this structure, which encourages turf battles, slows coordination, and allows agencies to shift blame when policies fail. Fragmentation has hampered regulation in areas such as food safety, financial oversight, and environmental protection. It also affects foreign policy, where the actions of maritime agencies, provincial governments, and state firms can complicate Beijing's diplomacy and make Chinese intentions harder for other governments to read.

Absence of the Rule of Law

China's legal system is an instrument of the Communist Party, which places itself above the law. Beijing promotes "rule by law," in which law serves as a tool of governance rather than a check on the Party, and Xi Jinping has explicitly rejected judicial independence and the separation of powers as Western concepts China must not copy. Courts answer to the Party's Central Political and Legal Affairs Commission, criminal conviction rates exceed 99 percent, and legal protections for property and individual rights depend on political favor. Legal uncertainty deters private and foreign investment and long-term risk-taking. It also leaves citizens with few avenues for redress against corruption, local government abuses, or corporate wrongdoing, pushing grievances into petitions and protests the Party must then contain.

Corruption

Corruption remains a systemic problem in China, rooted in concentrated power, patronage networks, and the absence of independent oversight. Senior officials and their families have amassed considerable wealth, much of it held offshore, even as the Party preaches "common prosperity" and urges ordinary citizens to "eat bitterness." Foreign media investigations have documented these fortunes, and Beijing has responded by blocking the outlets and suppressing the reporting at home. Xi Jinping has made his anti-corruption campaign a pillar of his legitimacy, presenting it as proof that he is restoring discipline and fairness to the Party. More than a decade later, the campaign has punished millions of officials and sidelined Xi's political rivals but done little to address the conditions that breed corruption, and continued evidence of elite privilege undercuts the basis on which Xi has asked for public trust. Fear of investigation has also made many lower-level officials reluctant to take initiative. Corruption has been especially pronounced in the People's Liberation Army, where purges have reached two former defense ministers and, in 2025 and 2026, two vice chairmen of the Central Military Commission, disrupting the military's leadership and modernization.

7. Society

Youth Disillusionment

Many young Chinese have grown disillusioned with the future the Party promised them. Facing high unemployment, unaffordable housing, intense work pressure, and limited upward mobility, they have embraced terms such as "lying flat" (*tang ping*) and "let it rot" (*bai lan*) to describe withdrawing from a competition they see little chance of winning. Others have sought the security of state jobs, driving record applications for the national civil service exam, or delayed marriage and children. Tighter censorship and shrinking room for personal expression have deepened this alienation. Young people were prominent in the November 2022 protests against zero-COVID. Beijing has responded by urging endurance, with Xi Jinping calling on young people to "eat bitterness" and seek work in the countryside. Disillusioned youth weaken consumption, productivity, and the Party's claim to deliver a better future.

Urban-Rural and Regional Divides

China's rise has been uneven across class and geography. The household registration (*hukou*) system ties access to public schools, healthcare, and pensions to a person's registered hometown, so many of the roughly 300 million rural migrants who work in China's cities cannot obtain the same services as urban residents. Millions of migrant workers' children stay behind in rural villages, often raised by grandparents, because they cannot enroll in city schools. Beijing has eased *hukou* restrictions in smaller cities, but the largest cities, where jobs and services are concentrated, remain largely closed. The divide runs between regions, too. Coastal provinces grew rich on trade and foreign investment, while much of the interior, the west, and the declining industrial northeast lag in incomes, infrastructure, and opportunity. These divides limit social mobility, depress consumption among China's lowest earners, and leave large groups excluded from the gains of China's growth.

Weak Social Safety Net

China's social safety net is thin for a country at its level of development. Most rural residents and many migrant workers rely on a basic resident pension that pays a small fraction of what urban employees receive. Households pay a large share of healthcare costs out of pocket, and unemployment insurance covers only part of the workforce. Without reliable support in old age, illness, or job loss, Chinese households must save heavily, which helps explain why household consumption accounts for only about 40 percent of GDP, well below the share in other major economies. Beijing has repeatedly

pledged to expand social spending and has introduced modest measures such as childcare subsidies, but larger increases would require spending and redistribution the Party has been reluctant to undertake. Meanwhile, the urban employee pension system faces mounting strain as the population ages, and without reform its reserves are at risk of running out.

Local Grassroots Protests

Although large-scale political protests are rare in China, local protests are common. Thousands of protests take place across the country each year, most of them driven by economic grievances. Construction workers demand unpaid wages, homebuyers protest stalled apartment projects, rural residents resist land seizures, and retirees have rallied against cuts to medical benefits. Because courts and official channels offer little redress, collective action is often the only way for citizens to press their claims. Authorities usually contain these protests quickly through a mix of concessions, payments, and arrests, and censors keep them from spreading. As growth slows and local government finances weaken, grievances over money owed by developers, employers, and the state are likely to grow.

Surveillance and Social Control

The Party keeps order through an extensive system of surveillance and policing. China has installed hundreds of millions of surveillance cameras, many linked to facial recognition and other AI tools, and has expanded "grid management" systems that assign officials and volunteers to monitor residents neighborhood by neighborhood. Public security spending, which covers the police, the People's Armed Police, courts, and prisons, has exceeded the official defense budget since around 2010, and Beijing stopped publishing a national total in 2014. Much of the cost falls on local governments already under fiscal strain. These tools may allow the Party to detect and suppress unrest early, but they require sustained spending that competes with healthcare, pensions, and education.

Censorship and Public Distrust

The Party relies on an extensive censorship and propaganda system to shape what Chinese citizens see and believe. The Great Firewall blocks most foreign news sites and social media platforms, censors delete posts and search results on sensitive topics in minutes, and state media present a consistently positive account of the country's conditions and the Party's performance. The system has been effective at preventing organized opposition, but it struggles when official messaging diverges sharply from

people's experience. The abrupt end of zero-COVID after years of propaganda defending it, repeated official assurances that the property market was stabilizing, and the suspension of youth unemployment data when the figures became embarrassing have all deepened public skepticism of the Party's official narratives. Many Chinese use VPNs to reach blocked information, and coded language circulates online to evade censors. Censorship also deprives the Party of the open debate that could expose policy mistakes early. Public distrust may make it harder for Beijing to rally support when it asks citizens to accept sacrifice.

Repression in Xinjiang, Tibet, and Hong Kong

Beijing governs Xinjiang, Tibet, and Hong Kong largely through coercion. In Xinjiang, authorities began detaining Uyghurs and other Muslims in internment camps on a mass scale in 2017 and imposed mass surveillance, forced labor programs, and restrictions on religion and language that have been widely condemned as possible crimes against humanity. In Tibet, Beijing restricts religious practice, has placed large numbers of Tibetan children in state boarding schools, and insists it will approve the next Dalai Lama, setting up a contested succession. In Hong Kong, the 2020 National Security Law and subsequent legislation dismantled the opposition, independent media, and much of civil society, and large numbers of residents have since emigrated, many of them to Britain. These policies generate lasting resentment in all three regions and impose international costs, including U.S. and European sanctions, U.S. restrictions on imports linked to Xinjiang forced labor, and damage to Hong Kong's reputation for the rule of law.

8. Foreign Policy

Global Ambitions Exceeding Capacity

Under Xi Jinping, Beijing has set sweeping goals for China's rise, including unifying Taiwan with the mainland, building a world-class military, and reshaping global governance through the Belt and Road Initiative and a series of new global initiatives. Many of these goals were set when China's economy was growing far faster than it is today. Slowing growth, mounting debt, an aging population, and strained local government finances now force Beijing to fund military modernization, technology subsidies, overseas commitments, and rising social needs from a shrinking margin of resources. Beijing has already scaled back overseas lending from its mid-2010s peak, an early sign of these limits. Because the Party has tied its legitimacy to specific goals and deadlines, falling short carries domestic political costs, and pressing ahead regardless risks the overextension that has weakened other rising powers.

Sovereignty Disputes

China asserts territorial and maritime claims over Taiwan, in the South and East China Seas, and along the Himalayan frontier, and it has advanced them through a steady series of incremental moves. These include building artificial islands, deploying coast guard and maritime militia vessels to harass foreign ships inside other countries' exclusive economic zones, staging military exercises around Taiwan, and justifying new installations in civilian or environmental terms. This salami-slicing approach relies on keeping the cost and risk of each step low, which leaves China exposed if neighbors and their partners detect, attribute, and respond to Chinese moves more quickly and in concert. It has also provoked backlash. Territorial encroachment registers with publics in a way few other issues do, and China's conduct has hardened opinion from India to the Philippines to Japan and Taiwan. Manila's practice of publicizing confrontations at Second Thomas Shoal has shown that Beijing is not immune to exposure.

Overextended Overseas Lending

Over the past two decades, China became the largest official creditor to developing countries, lending more than $1 trillion through state banks for ports, railways, power plants, and other infrastructure, much of it under the Belt and Road Initiative. Many of these loans went to governments with weak finances, and a large share is now owed by countries in debt distress. Beijing has responded by extending large emergency rescue loans and by joining debt restructurings in countries such as Zambia and Sri Lanka, while sharply reducing new lending from its mid-2010s peak. Debt relief would add to strains on China's own financial system, and Beijing's insistence on repayment has fueled resentment in several recipient countries. Concerns about debt, opaque contracts, corruption, and sovereignty have already led governments to renegotiate or cancel projects, and Italy withdrew from the Belt and Road Initiative in 2023.

Exposed Overseas Interests

China's economic expansion abroad has outpaced its ability to protect it. Chinese firms hold trillions of dollars in overseas assets, and hundreds of thousands of Chinese citizens work on projects abroad, many of them in unstable countries. For example, militants in Pakistan have repeatedly attacked Chinese engineers and workers, in some cases with deadly suicide bombings. Civil conflict in Myanmar has threatened Chinese pipelines and investments. Beijing has also had to organize large evacuations of its citizens from Libya, Yemen, and Sudan. China's overseas military presence remains small and largely concentrated in Djibouti and Southeast Asia, far from many of the places where its citizens and investments are most exposed. Its principle of

noninterference and its restrictions on armed private security contractors leave it dependent on host governments, which are often unable or unwilling to provide protection.

Weak Alliance Network

China has few allies. Its only formal treaty ally is North Korea, and its closest partners, including Russia, Pakistan, and Iran, are economically weak, internationally isolated, or both. The partnership with Russia, which Xi and Vladimir Putin declared to have "no limits" less than three weeks before Russia's full-scale invasion of Ukraine, rests mainly on shared opposition to U.S. power, and their interests diverge in Central Asia and the Arctic. These relationships give Beijing diplomatic cover and some strategic leverage, but they add little economic strength and tie China to partners whose conduct can damage its reputation. China's support for Russia's war effort in Ukraine has soured its relations with much of Europe. Meanwhile, groupings such as BRICS and the Shanghai Cooperation Organization extend China's diplomatic reach but include rivals such as India and members with divergent interests.

Influence Operations

China maintains an extensive overseas influence apparatus that reaches into other countries' domestic affairs to steer decisions on trade, technology, and security. It includes United Front networks, Ministry of State Security activity, front organizations, diaspora cultivation programs, embassy-coordinated campaigns, and some university-based student associations. It operates in wealthy democracies and fragile developing states alike. The apparatus relies on covert funding, concealed state direction, and the cultivation of political and business elites, and its effectiveness depends on secrecy. Once exposed, such operations lose much of their effect, and resentment of foreign interference can set back China's malign influence.

Cyber Operations

China runs one of the world's largest and most persistent state cyber programs, drawing on its intelligence services, military units, and a network of private contractors. These operations differ from traditional espionage in scale and purpose. They target governments, militaries, technology firms, telecommunications providers, and universities across North America, Europe, Asia, and the developing world, collecting intellectual property and personal data in bulk along with political and military intelligence. Chinese hackers have also gained access to critical infrastructure in the United States and allied countries, including power grids, water systems, ports, and

telecommunications networks, in what U.S. and allied officials assess is preparation for disruptive attacks in a crisis. These activities have hardened threat perceptions in targeted countries. Exposure has brought joint attributions by the United States and its allies, sanctions on Chinese firms and contractors, and tighter restrictions on Chinese technology and research collaboration.

Credibility Gap

China invests heavily in state media, overseas broadcasting, and social media to shield its policies on Taiwan, Xinjiang, Tibet, and Hong Kong from criticism and to bend other states' positions toward its interests. Across much of the developing world, this apparatus fills an information vacuum, making Beijing the first and sometimes the only voice framing events for local audiences. Its messaging repeatedly claims that China's rise is inevitable, that it is a benign power posing no threat to its neighbors, that it is building a multipolar world grounded in noninterference, and that its model of development is superior to Western democracy. Much of China's own record contradicts each claim. Its coercion of neighbors belies its professed benign intent, its covert interference abroad belies its commitment to noninterference, and its slowing economy and mounting debt undercut the promise of a superior model. These contradictions leave Beijing's narratives exposed whenever its conduct is documented and publicized. Its message abroad also depends partly on the credibility of the Party's account at home, which has eroded with slower growth and pervasive corruption.