

China Watch

A China Business Report prepared by David Mahon
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A u t u m n 2 0 2 5

*Production without possession,
action without self-assertion,
development without domination,
this is the Tao's mysterious operation.*

Lao Zi, fifth century BCE

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Recovery for some

China's gross domestic product increased 5.3% in the first two quarters of this year, of which consumption constituted 52%. Retail sales expanded by 5%, with marked growth in vehicle sales (largely electric) of 25.8%, tourism 8%, and the fitness, wellness and health sectors (inclusive of apparel) of 12%. Exports increased 7%, reflecting Chinese exporters' diversification away from the United States and Europe; shipments to both those destinations remained strong but margins to

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exporters and distributors were gutted by US and EU tariffs. The generally positive trends in the first half of the year are irrefutable, yet the recovery of household and corporate consumption and investment over the next two to three quarters will be slow and shallow.

Many commentators, including this paper's authors, overestimated how quickly Chinese household consumption would recover. Post the pandemic and in the throes of Trumpian disruption and US contraction, the world has changed and continues to evolve unpredictably, to the degree consumers remain cautious and struggle to adjust to unfamiliar, shifting economic landscapes. It is probable Chinese consumers will be forced to adapt to slower increases in

individual remuneration and asset — particularly real estate — values as a new normality.

‘We are told the economy is improving but when friends lose their jobs and you know you may not get a bonus, it is hard to be optimistic. My husband and I just returned from Thailand, and we still buy premium food items, especially for our son and parents. But otherwise we buy cheaper local brands. Most Chinese do not pay attention to macro-economic data but everyone looks around within their communities for more immediate signs.’

Beijing marketing manager

Corporate debt financing and investment have been sluggish so far this year, reflecting a lack of private sector investment confidence. There are signs of growth but they are scattered and sporadic.

The visible hand

The real estate sector has bottomed out in some Chinese cities, prompting citizens to buy new apartments again. Second hand apartment sales in China have also increased, due to the government recently relaxing restrictions applied decades ago to prevent buyers

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from speculating outside their districts. This has been an example of how China can be swift in applying new policies, but often slow to rescind them when they become impediments to growth.

‘My one concern is the value of my apartment, which has fallen 25% in the last three years. My wife and I will inherit our parents’ apartments so we are not under any great financial pressure, and we paid our mortgage off five years ago. But until we see house values recover, or at least stop falling, we will delay our plans to renovate and will not consider buying an investment property. Most of us just want to protect our savings until things improve.’

Zhejiang high school teacher

As the real estate sector improves and stabilises, the Chinese Government is likely to reapply investment restrictions steadily, such as raising residential deposit thresholds and increasing mortgage interest rates. It will prevent residential real estate from becoming a dominant driver of growth and source of economic volatility as in the past.

The government's visible hand in the economy takes the form of long term, strategic industrial planning, which has spawned global corporate leaders in green technology, electric vehicles and robotics, while government intervention in times of instability has averted multiple economic crises. As the economy expands and becomes more sophisticated, state intervention and market forces will become harder to balance.

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Income disparity is one area China must deal with more effectively than it has in recent years. Its neighbours in Dhaka, Jakarta and Kathmandu have seen social unrest erupt in the last 18 months, bringing regime change

in the cases of Bangladesh and Nepal. There are no present threats of regime change in China, but the ghosts of 1989, although seldom referenced, still haunt the halls of Zhongnanhai. China differs from other nations in its history, geography and scale, but few countries are exceptional to the deeper forces that drive human societies, all bending in the end to the demands of individuals, communities, markets, and the fluctuating forces of public aspiration and discontent.

Follow the money

China's banking system holds over USD 22 trillion in household savings; however, the rate of new deposits is slowing. Discouraged by deposit rates of less than 1.5%, households are increasingly turning to higher-yielding financial instruments and investing in their domestic stock market. China's CSI 300 index rose 16% over the last eight months, with over 80% of investments coming from householders. This contrasts dramatically with other major global stock markets such as New York, where institutions dominate and individual investors make up less than 30% of trading volumes.

Retail investor enthusiasm may very well wane in the first quarter of 2026, as households now buy shares due to their daily rise in values; these increases are largely driven by investors' exuberant buying activity rather than improvements in the underlying companies. In any case, the growth in China's capital markets could lead to more quality companies being listed. If regulators act prudently, they will support businesses that are more reflective of China's dynamic future sectors, rather than many of those currently listed.

The unstoppable revolution

The US and its allies, particularly the UK and EU, are so focused on blocking China through tariffs, embargoes and military containment they cannot accept they have already failed to stem its rise. China is the world's strongest growing economy, the primary economic and political influence in Asia, and key to global economic recovery and stability.

Washington is grappling with geopolitical competition in a region it has already lost. For decades, Western leaders have been poor historians and unsophisticated strategists in assessing China, misunderstanding that while it may have been feasible to act as a counterbalance to Chinese power in Asia, it was always impossible to win a drawn out competition for regional primacy.

The International Monetary Fund has forecast that between 2025-2030 China will account for 23% of world economic growth, compared with 15.2% for India and 11% for the US. Over half the world's GDP is now generated in Asia, with China its primary engine.

There have been and will continue to be periods when China's enormous production capacity marginalises certain sectors in its trading partners' economies, triggering negative sentiment. But China's economic influence has the potential to be broadly positive in the region and beyond. Chinese windmills and solar panels are already

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more than just crucial tools allowing the world to move away from fossil fuels, but instruments of energy independence enabling countries to import less oil, coal and gas from coercive suppliers such as Saudi Arabia, Russia and the US. The development of island

nations in the Caribbean and the Pacific, abundant in wind and sunlight, has long been inhibited by the cost of importing energy. India spends 5% of its GDP importing fossil fuels alone. China currently adds over one gigawatt of solar power capacity (equivalent to the output of a coal fired power plant) to its national grid each day.

China is on the leading edge of a technological revolution as transformational as the Industrial Revolution of the 18th century, but instead of replacing manual labour and brawn with machines, this revolution is increasingly replacing menial mental labour with artificial intelligence and robotics. The advances in mechanisation enjoyed by England in the 18th century ultimately befitted the elite few, and it

remains to be seen if China can ensure its technological and cognitive revolution can be more inclusive.

China's current advantage however still lies in its ability to apply technical innovations swiftly and widely, providing significant advantages in its manufacturing and financial technology sectors, and experimenting by selling products to a large domestic population before taking on global markets. China's WeChat payment system unifies financial transactions in a national network that is cheap, secure and immediate, unlike many rent-seeking Western banking apps and services.

Rather than just selling products, China would create and capture more value by forming joint ventures and sharing intellectual properties in countries where it knows it has technological advantages; future growth lies in voluntarily co-operating as it once demanded foreign partners to do. China has not risen solely from internal forces; it could not be where it is today without the decades of partnership with foreign firms in the decades following Deng Xiaoping's economic reforms.

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The less China reacts to the West's attempts to coerce it, the stronger it can become. Instead of competing directly with its political adversaries, China will continue to invest in its own economic sustainability,

innovation and balance. The country's inherent strengths come from simple, but usually misunderstood factors in its domestic economy and social culture.

One of these factors is China's ability to be politically centralised while maintaining among the most decentralised and competitive markets in the world. The fundamental driver of China's present recovery, allowing it to retain its position as the world's strongest developing economy, is the competition and relatively independent commercial interplay between its cities and regions. As such it can be unhelpful to look excessively to Beijing and its economic policy announcements to resolve market problems.

State of stability

China's political centralisation does not appear to have made it the efficient police state so many in the West assume it, or some of its own leaders may wish it, to be. There is scant evidence of active security forces in Chinese cities, let alone the army. Apart from some of its border provinces, namely and controversially Xinjiang, Beijing manages its surveillance system with mixed success. It seems often to be better at blocking access to information than it is at watching and coercing its citizens. China's 'big brother' is a network of algorithms seemingly consumed with its own complexity, and choking on the sheer volume of data harvested. While this may improve as AI assists in sorting and prioritising data in the years to come, there has been little application to date of the much reported social surveillance system intended to log and then apply penalties for misdemeanours, such as travel restrictions or eligibility to secure bank loans. Those the government considers dissidents are nevertheless monitored more closely than ever.

'Fewer and fewer citizens believe that this surveillance system works, although the idea of it may have resulted in better behaviour in society. It does help core policing in that our arrest rates for serious crime are higher and evidence in court cases stick more often. But so much data is gathered automatically that we often can't cope with the volume.'

Retired Chinese police commissioner

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Chinese social stability and relative security have more to do with culture and history than collective fear of the state. For centuries, war, famine and revolution have battered generations of Chinese people, to the extent that individuals and communities are seldom

militant, but rather self-regulating. When police turn up to domestic conflicts or disputes between neighbours, they play more the role of mediators, encouraging local communities to resolve issues themselves rather than stiffly enforcing the law. Muggings and theft are rare and while security screenings at airports and railway stations are comprehensive, they are usually performative. Chinese people obey laws and abide by norms more than many Western cultures, but are quick to object to and ignore rules when they cease to make sense, as was shown in the widespread protests against the government's poorly considered and applied COVID restrictions in its final months.

Nascent alliances

Unlike its relatively stable domestic security situation, China's external threats have been increasing exponentially since President Obama's 'Pivot to Asia' redeployed the US military from the Middle East to the South China Sea and western fringes of the Pacific. China has developed its military capabilities in response to this partial US naval blockade, to a level that it can now defend itself against a US attack, and Washington would struggle to garrison Taiwan swiftly enough to engineer any bid for independence. This arms race has increased the possibility of a clash between the US and China elsewhere in the region, either by proxy such as in the Philippines, or by accident such as a naval clash on the high seas. It is not widely reported in the West that the US continues to inflame the situation by mounting military exercises rehearsing for war with China at the edges of Chinese territorial waters; these are some of the largest war games conducted in Asia since the end of the Vietnam War. China's recent naval exercises in the international waters of the Tasman Sea, although unwise, should be seen in this context.

China is no stranger to military displays and demonstrations of might. The September 3rd military parade in Beijing, held to commemorate the Allies' victory over the Japanese in World War II, was a statement of military and technological prowess, and a reaffirmation of China's status as a great power — a far cry from the Chinese state that emerged bloodied and bankrupt following the end of that war.

The Beijing event was as significant for who attended as for who did not. Central and Southeast Asia and the Balkans were well represented, and despite anti-government protests in his country, Indonesian President Prabowo Subianto attended. Apart from Slovakian Prime Minister Robert Fico and Serbia's President Aleksandar Vucic, the West essentially boycotted the parade, epitomising the decline of Western power and influence, and a growing predilection for peevishness over diplomacy. The attendance of former New Zealand prime ministers Dame Helen Clark and Sir John Key, along with former Australian

foreign minister Bob Carr, stood as reminders of a more balanced past in China-Australasian diplomacy.

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Once condemned by the West for its awkward 'wolf warrior' diplomacy, China has showed restraint over the last two years in the face of considerable

provocation. In contrast, culture warriors from Washington, Brussels, London and Canberra may be heard barking with increased stridency.

My enemy's enemy

The sight of Indian Prime Minister Narendra Modi in deep discussions with President Xi Jinping at the Shanghai Co-operation Organisation sent waves of anxiety through the Western world. In their awkward, ineffectual attempts to preserve the US-led, post-Cold War world

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order, Western leaders and in particular Trump — with his random barrages of trade tariffs — have helped forge the very alliances they strove for half a century to prevent.

If the new apparent rapprochement between Delhi and Beijing evolves into a commercial partnership, the world will benefit immeasurably and peace in Eurasia and Asia will be more assured. Western alliances in Asia, such as the Quad, will be seen as little more than strategic chimeras: empty protestations of authority with little military or economic substance.

Collaboration between India and China is, however, not a certainty. Nationalists on both sides are likely working to undermine the relationship, for abstract notions of exterior enemies are tools populists invariably use to garner domestic political support. Populism is a global political malady not only confined to the West.

In the 12 months leading up to the celebrations in Beijing, the world experienced breakdowns of alliances and power blocs, and the formation of astonishing new ones at a rate not seen since the end of the Cold War. The US' partial abandonment of NATO, rather than being a catalyst to unify EU member states, has exacerbated their underlying disunity and fissures in the fabric of the wider Union.

Forecasts for the Chinese economy must be considered with the caveat that supply chain disruptions, embargos and even outright war may occur at any time. Israel and the US appear to be preparing to resume war with Iran, and while some European countries are protesting the Netanyahu-Trump genocide in Gaza, they continue to sell weapons to Israel. A holocaust on the Levant now seems unstoppable.

*'To robbery, slaughter, plunder, they give the lying name of empire;
they made a wasteland and called it peace.'*

Attributed to Calgacus, on the Romans, 83 C.E.

With many major Western democracies increasingly distorted by populism — and in the case of the United States, fascism — Chinese leaders and policymakers are looking less to the West for examples of how China may develop its civil and commercial institutions. Leaders are preferring instead to reflect on China's own recent history of administrative trial and error. More Chinese citizens refer to the strengths of their semi-authoritarian political culture, rather than only the weaknesses. Among the public there is a sense that China's unique system of government, which mutated from Chinese communism, represents a form of popular sovereignty.

China is emerging stronger politically and economically as the bonds of the West fray and snap, and the triad of Beijing, Moscow and Delhi crystallises. As the established economies and powers of the West look inward, this new Eurasian alliance has the potential to fill the influence surrendered by the West. At its core, China seeks stability and knows how to endure, but it must learn from the mistakes and naked hubris of the American, Soviet, and British empires, and avoid the temptations of wider imperial gains. ☯