

China Watch

A China Business Report prepared by David Mahon
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L a t e - S u m m e r 2 0 2 5

*The Empire has ever been won,
By letting things take their course.
He who must always be doing,
Is unfit to obtain the Empire.*

Lao Zi, fifth century BCE

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Consumption, war, and railways

China's consumption is recovering steadily. In May, retail sales grew by 6.4% year on year, up from 5.1% in April, the fastest growth rate since 2023. This was due significantly to a government funded trade-in policy under which consumption of household appliances grew 53%

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and communications devices by 33%.

Without government stimulus, catering nevertheless grew by 6%, sports and recreation by 28%, and domestic tourism by 33%.

Manufacturing expansion is still strong at 6.2% YoY, with growth in high technology exceeding 8%; rail, ship and aircraft production increased by 14.6%; and automobiles, electrical machinery, computers, and communication equipment all grew by over 10%.

Lack of public confidence in the government's policymaking acumen constrained consumption over the last two years, but the prime cause and enduring reason is that 80% of Chinese household wealth was and remains locked in real estate assets which have lost 20% of their value. The Chinese economy will only recover fully when real estate asset values rise again.

In 2020, residential real estate accounted for 25% of GDP before Beijing triggered a sector downturn by restricting loans to unstable property behemoths. As of 2025 it is 15%. Beijing did not want a real estate

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growth model like those that most Western economies have struggled with over the last hundred years. The government wanted growth to be driven by more diverse economic engines, a sound motive, but this was hampered by its clumsy and belated policy execution.

Most economies experiencing a sudden real estate downturn of such scale would have collapsed and faced up to a decade of painful economic uncertainty and stagnation. Prevailing global media reports that the Chinese economy is collapsing or on the verge of doing so bear little resemblance to the realities on the ground and ignore the economy's inherent resilience and strong signs of recovery.

'The government averted a greater economic shock by deflating the property bubble before it burst. But I think they underestimated the resulting failure of a wide range of property projects, and the downward price spiral crushing consumer confidence. I have to acknowledge what the government is doing buying up bankrupt real estate projects and converting them into affordable housing, and lowering mortgage requirements and interest rates in general. But the economy is now recovering not just because of these measures but because the private sector is reinvesting again. China is so big and diverse it needs a more proactive government than most Western countries can possibly understand. I would rather the government were present in daily life even if it does make mistakes.'

Shandong entrepreneur

Wealth shock

China's critics cite the excessive role of the government in the domestic market, yet government intervention in China's real estate sector stemmed the rate of its fall. Although local governments have been slow to take up the scheme of buying distressed property projects and converting them into affordable housing, this is now gaining momentum. Aggregate property sales are still declining, but demand for new, qualified residential floorspace in China's top ten cities is rising. In Shanghai, new high-end properties (USD 5 million and above) have been selling swiftly. Property market analysts are

forecasting a stabilisation of the property sectors of all first tier and most second tier cities by the end of the first quarter of 2026. This may be optimistic, but they may only be out by a quarter or two. Actual recovery will take longer, perhaps by the end of the fourth quarter of 2027.

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China's property crisis cannot be seen in a simple boom and bust context, for the imbalances in Chinese real estate are in part a hangover from the scale and pace of urbanisation, quasi-privatisation of state-held

land, and the rapid formation of a massive middle class over just a few decades: the equivalent of one Europe, 500 million people, moving from subsistence farming to urban citizenship in less than 30 years. Foreign businesspeople tend to interpret trends in China in the context of their own country's economic history instead of trying to understand China in its unique context.

'Beijing's political and social controls are strong; they need to be, but the economy it not as centrally managed as people think, or Beijing would like. I don't just mean foreign observers, but Chinese people also misunderstand this. Often economic policy initiatives are disobeyed or reinterpreted at local levels to suit unique circumstances. We are certainly not controlled by the weaknesses and whims of one man, as the West supposes. The upside to this is the market is often more potent than the policies.'

Zhejiang factory owner

The multipolar century

China is the largest economy in the world by purchasing power parity ('PPP'), constituting 20% of global GDP. It's per capita GDP by PPP increased 40% over the last ten years to USD 24,570 and will have doubled between 2015 and 2030.

China's economic expansion has no precedent in history. Absent war, plague or pestilence, China will become the strongest nation economically in the world by the end of the decade, but in a multipolar world in which no one power will dominate.

The US will likely remain the strongest economic and military force in the Western Hemisphere. India will continue to rise, toward either conflict or collaboration with China, and while conflict seems more

likely under current circumstances, their shared economic needs and inherent strategic pragmatism could drive both to create a formidable alliance. Russia may well consolidate its gains in eastern Ukraine, and backed by its nuclear arsenal it can remain a major power, especially if it reduces the dominance of munitions manufacturing in its economy. But Russia may struggle to slow its economic decline, much like the

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West in general. Despite the war in Ukraine distracting the US from its efforts to contain China, it is in China's economic interest that peace returns to Europe. Regardless the EU can no longer be the economic partner that China hoped it would remain – a counterbalance in both trade and currency to the US.

Europe has not responded to Trump's trade war by refocusing on the Chinese market and deepening the strong historical economic partnership, despite China's openness to this. The EU, like the US, failed to invest in manufacturing and innovation significantly in key industries such as battery and clean energy technology. Brussels has also become increasingly hawkish, buying into the narrative from Washington that China is a threat to global economic and geopolitical stability. China's continued closeness to Russia in the wake of its invasion of Ukraine contributed to a sense of dismay from Europe's leaders and ordinary citizens.

Bombs and trains

The Chinese Government condemned the United States' attack on Iran as a wanton act of war that could yet trigger a wider conflagration in an already volatile region. Chinese officials are concerned Washington violated not just international law but the norms of warfare it purports to uphold, no less than Russia did in Ukraine, or Japan in pretending to negotiate in 1941 only to mask its infamous surprise attack on Pearl Harbour.

'Like most nuclear powers, China does not want others developing atomic weapons because with each new nuclear armed nation the chance of atomic conflict increases. We knew Tehran did not have a nuclear weapon, and America knew that when they attacked. The US is now the greatest threat to world peace. They even assassinated the Iranian officials they were negotiating with days earlier. Quite North Korean. Trump has seeded great instability in an already volatile Middle East.'

Retired Chinese diplomat

'China condemned the US attack on Iran but the domestic media has been somewhat muted since. We tend not to take sustained public positions on global affairs, which we think of as a positive Chinese trait of non-interference. It is in a way, but it also masks a degree of uncertainty, and we are cautious about the Middle East. China gets credit for the accord between Iran and Saudi Arabia, but we were actually more a passive facilitator of something both nations had come to see was in their strategic interests.'

Chinese teacher

China, critics argue, is a regional hegemon in Asia and in no position to judge the US. It is true China's reluctance to condemn Russia's violation of Ukraine's sovereignty weakens its calls for the restraint of others now, but China is forced to maintain a relatively positive relationship with Russia – which is a strategic asset in the face of continued American economic and military coercion in Asia. Indeed, China long enjoyed a close and positive relationship with Ukraine prior to the invasion.

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Nations pick their fights according to a hierarchy of their interests, but Beijing nevertheless made a poor choice in respect of Ukraine, given its long-standing assertion of the inviolable principles of sovereign integrity. China also erred conducting live-

fire exercises in the Tasman Sea this year, undertaken in an attempt to show Washington it was not intimidated by the frequent war games the US enacts along the fringes of Chinese territorial waters. The Chinese navy disrupted international flight paths over the Tasman with little warning, undermining the potential gravitas of the gesture. Given the US and its allies patrol a few miles outside Chinese waters and airspace constantly and aggressively, it would have been better for the Chinese navy to avoid being associated with such actions.

'Initially I thought it was gutsy of China to make the voyage and I hoped it would wake Australia up to what it was doing against China with exercises with the US up there. But rather than impress most Australians, it just pissed them off.'

Chinese Australian entrepreneur

China has deeper commercial interests in Iran than Ukraine and fears any escalation of hostilities. In the midst of Israeli and Iranian missile exchanges, the first Chinese goods train travelled from Xi'An along the new China-Iran rail corridor to a station at the Aprin Dry Port, a large cargo hub outside Tehran. Part of USD 400 billion worth of Belt and Road projects between China and Iran, the 10,400 km rail line has already been affected by the war in that no further trains have travelled in either direction since.

With the US choking Iranian oil shipments at sea, this land route is critical to Iran and important to China, for two-thirds of China's maritime trade and 80% of its crude oil imports pass through the narrow, potentially vulnerable Strait of Malacca. The new rail link allows delivery to China of supplies such as oil in 15 days compared to 30 to 40 dangerous days by sea. China presently buys 18 million barrels of Iranian oil per day.

It is plausible the US could attack the Iranian end of this supply line itself or through proxies such as Israel, but a wider war is probably unlikely. Following its failure in Iraq and withdrawal from Afghanistan, the US does not appear to have the resolve for a drawn-out war in Central Asia. It may still seek a clash with China in Asia but more likely at sea. Given the dangerous ballet in which the US and Chinese navies are engaged, a conflict may well occur in the coming years. Some in the Pentagon believe the US can teach China a lesson but there appears no imminent threat.

The 'rest'

With the US doing all it can to decouple from the Chinese market and the EU states falling behind economically and in technical innovation, China will be forced to trade less with the West and more with the 'rest'. The strongest of the 'rest' are in China's own region. Over a

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billion people in Asia are expected to join the middle class by 2030. Together the BRICS nations account for around 50% of the world's population, while the US accounts for 4%.

Foreign companies should not wait to return to China, and those already established in the market should not delay expanding, in order to compete with their multinational rivals and probably more importantly, with the burgeoning domestic Chinese champions in most sectors.

'Our board restricted the scale of our trade with China for over two decades on the premise the risks of dependence were too great. China delivers the best returns. We have left hundreds of millions of dollars on the table over that time due to this decision.'

Multinational country manager in Beijing

'Our board are looking for a hedge against political risk by managing our Chinese factories from Singapore. We need a strong Southeast Asia hub but we cannot subordinate the position of China to it. China drives all Asian economies to some degree and Chinese officials watch how multinationals rank the Chinese market. Doing business here is not easy but dealing with the remote leadership in our company is equally challenging. It would also help us if Beijing communicated better with the rest of the world. Our directors often have little choice but to rely on the distortions and conspiracies in the Western media.'

European engineering firm country manager in Shanghai

China is a proponent of the Westphalian system, seeing it as validating its claim to Taiwan while providing a clear principle for resisting future undermining of the integrity of its western and northern borders. Perhaps Chinese leaders will realise in the future that their words would carry more weight if they were more consistent in asserting the Westphalian principles of 'the right of sovereign states to exercise untrammelled authority within their respective territories' by denouncing future violations wherever they occur in the world.

The US-backed Israeli war on Iran will test Beijing's diplomatic acumen and dexterity, as it has deep relations with Israel, Iran, and most Middle Eastern countries, and knows it can only challenge the US up to a point. As strong as the Chinese economy may be, China cannot afford to have its supply lines restricted or cut, or it will lose the inputs its industries depend on.

More hawkish leaders in Beijing may be tempted to be 'proactive' in Central Asia and the Middle East to protect China's economic interests, but this would be a mistake. The US has been weakening itself for decades, despite its displays of might. China needs to work harder making its own nation an example of the global co-operation and peace it purports to desire, and avoid becoming embroiled in the chaos created by the declining powers which resent and fear China's evolution. It takes great strength to do nothing in times of strife, especially when you are often the target of those perpetrating it. ☯