



Sinology

THINKING ABOUT CHINA

Getting Inside the Heads of Xi & Trump

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What Are We Afraid Of?

ZTE中兴

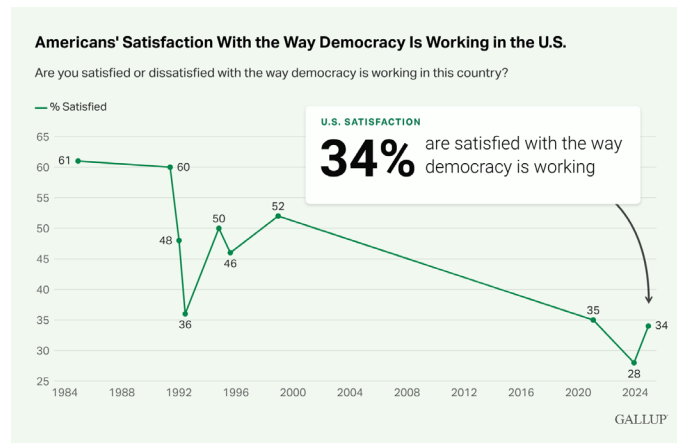
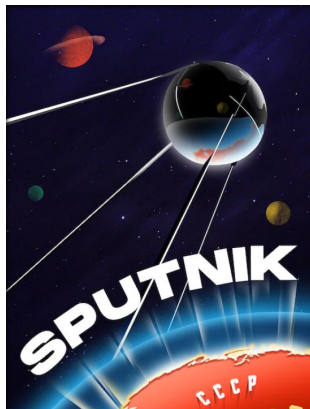


HUAWEI

TikTok

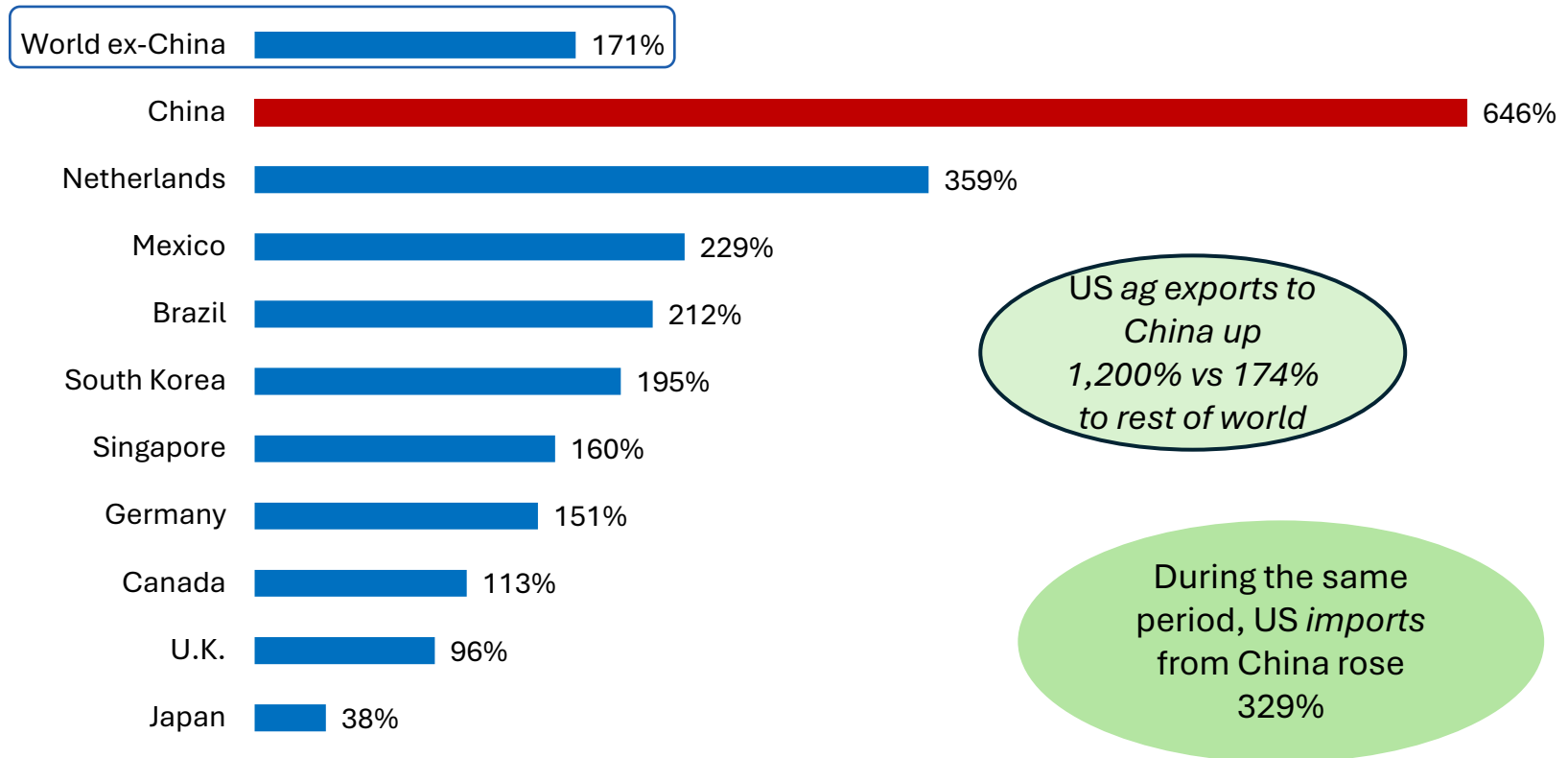


deepseek



Engagement Works: China's WTO Membership Has Supported American Exports And Jobs

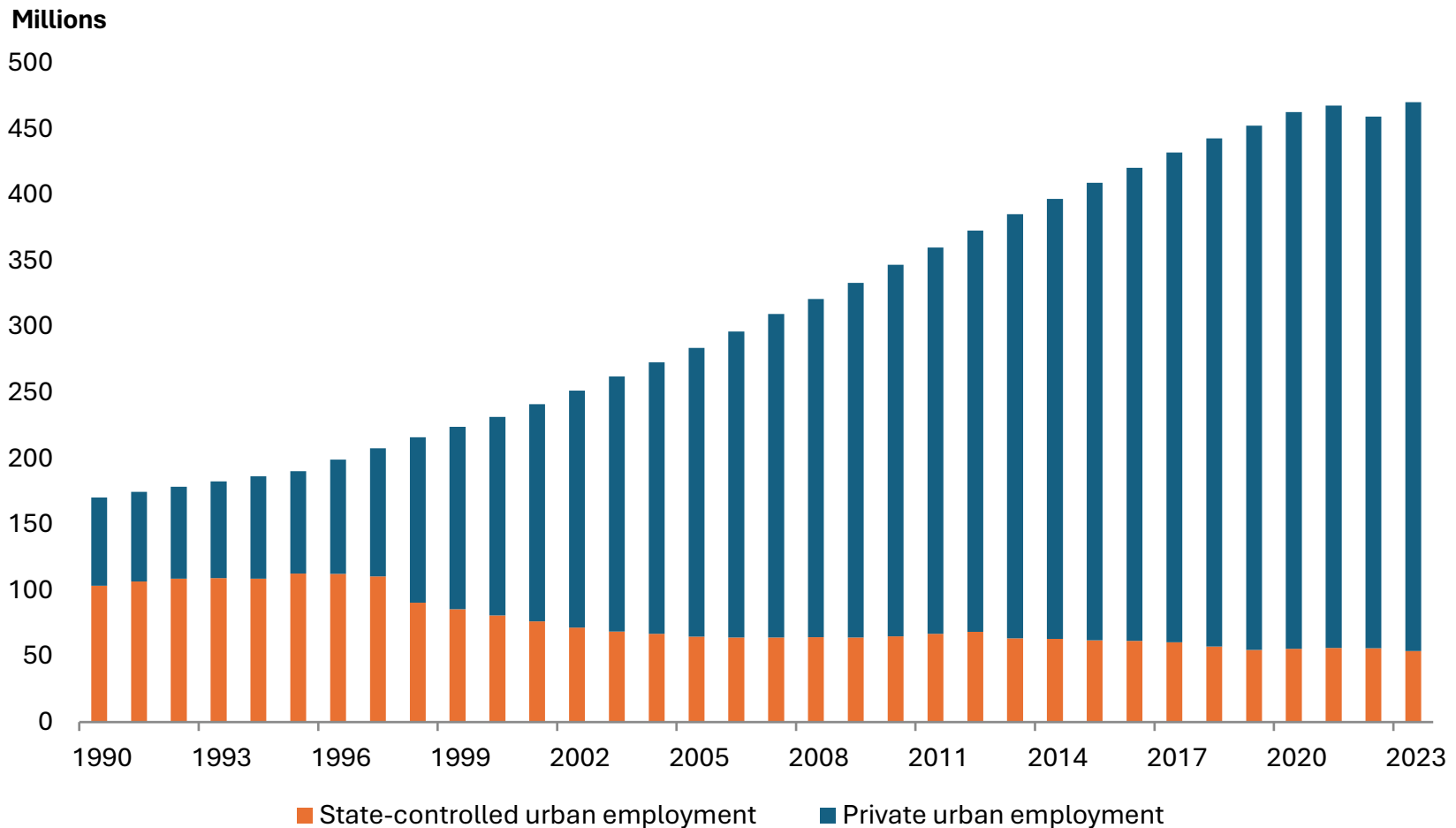
Growth rate of US goods exports to its 10 biggest markets, since China joined the WTO in 2001



Source: CEIC, data for period 2001 to 2024

Private Firms Create China's Jobs, Innovation And Wealth

❖ 89% of urban employment now in small, privately-owned, entrepreneurial companies



Source: CEIC

Xi Will Be Pragmatic About Taiwan (If Washington Is As Well)

- ❖ **DOMESTIC POLITICS**—No pressure on Xi to use force
- ❖ **MILITARY**—Use of force would be very risky for Beijing from a military perspective
- ❖ **ECONOMIC**—An invasion would trigger an economic disaster. For example, China is dependent on imported semiconductors, and Taiwan accounts for more than one-third of chip imports



Source: US Library of Congress

What Do Trump & Xi Really Want?



US Tariffs Will Hurt The US More Than China

❖ G7 accounted for 28% of China's exports last year, down from 48% in 2000

❖ **TECH RESTRICTIONS** - NY Fed: "China has boosted domestic innovation and self-reliance"

SHARE OF CHINA'S EXPORTS TO G7 AND THE REST OF THE WORLD




Sources: CEIC, NY Fed

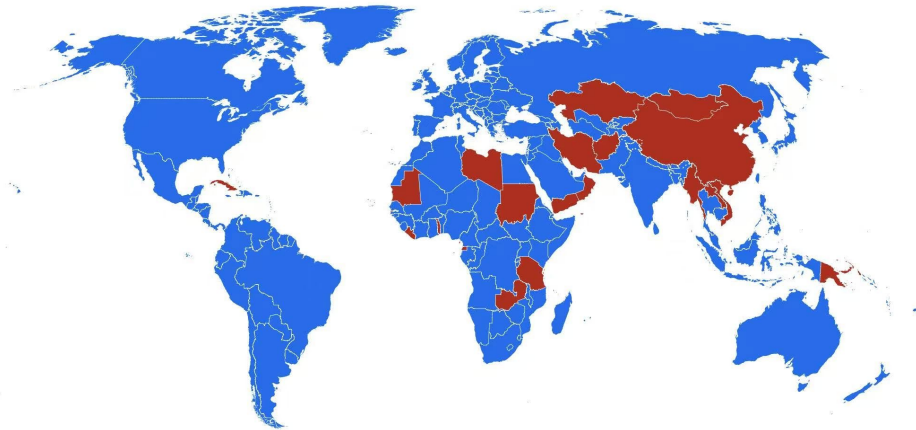
Trade Power

A growing number of countries have more trade with China than the US

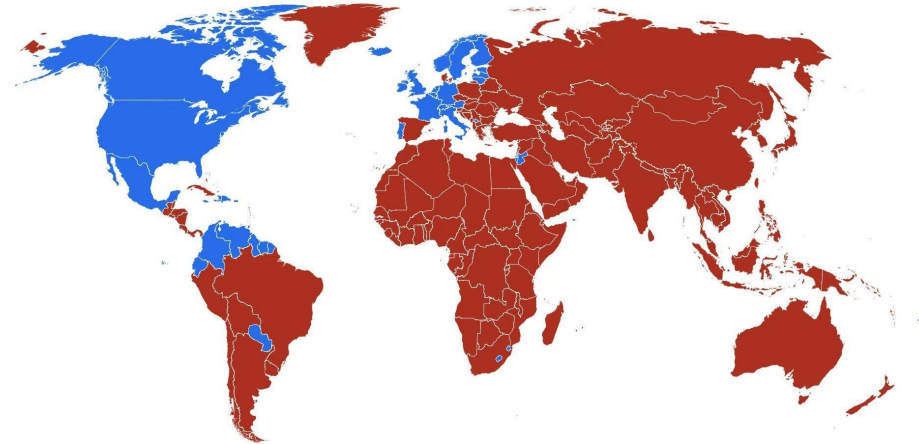
 US as the larger trading partner

 China as the larger trading partner

2000



2024

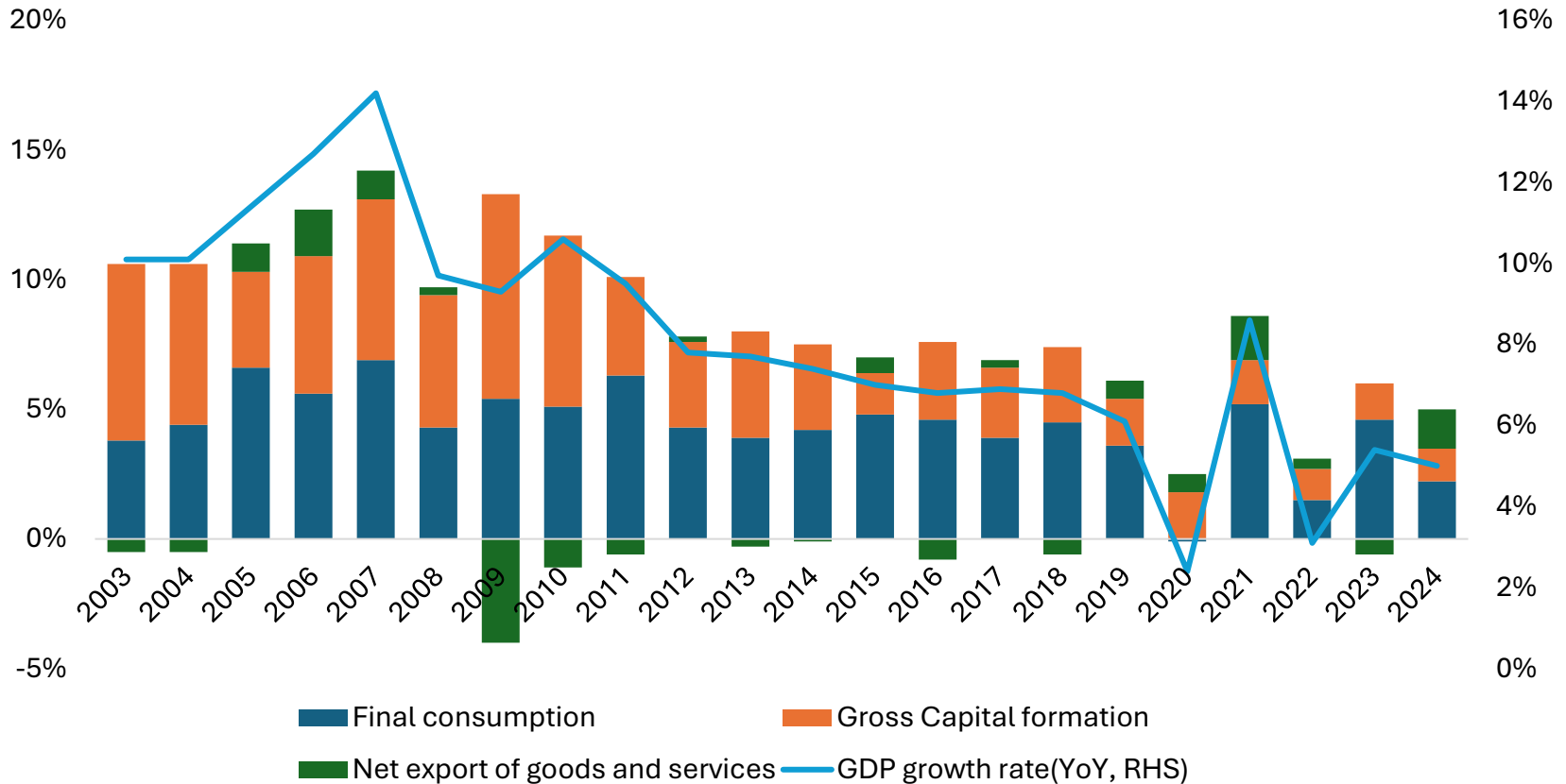


Sources: U.S. Census Bureau, CEIC

Not Export-Led: Small Share Of GDP Growth

Net Exports Contributed 1.1% of GDP Growth On Average Between 2015-2019; 30% in 2024

CONTRIBUTION TO REAL GDP GROWTH

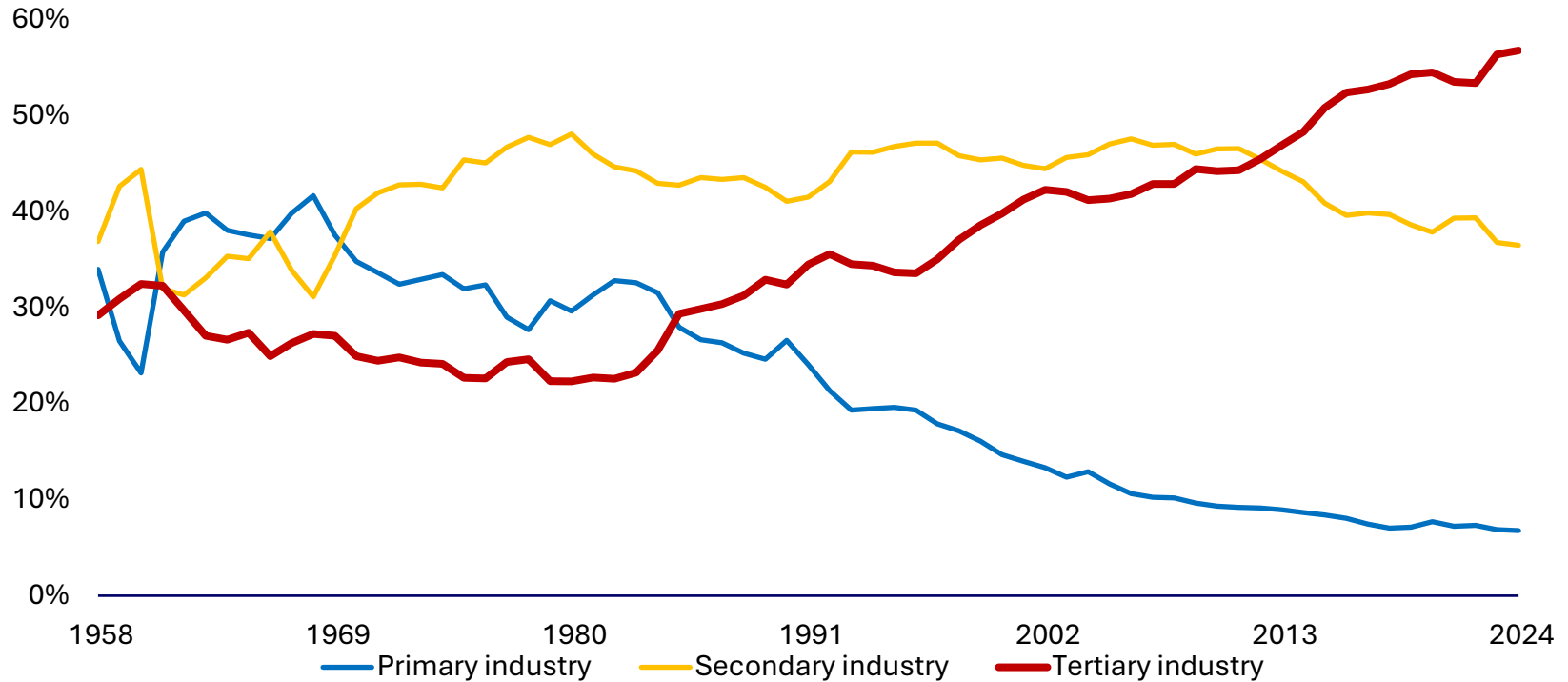


Source: CEIC

Rebalancing Of The Chinese Economy Well Underway

Services and consumption bigger than manufacturing and construction for thirteen years

SHARE OF GDP BY PRODUCTION APPROACH

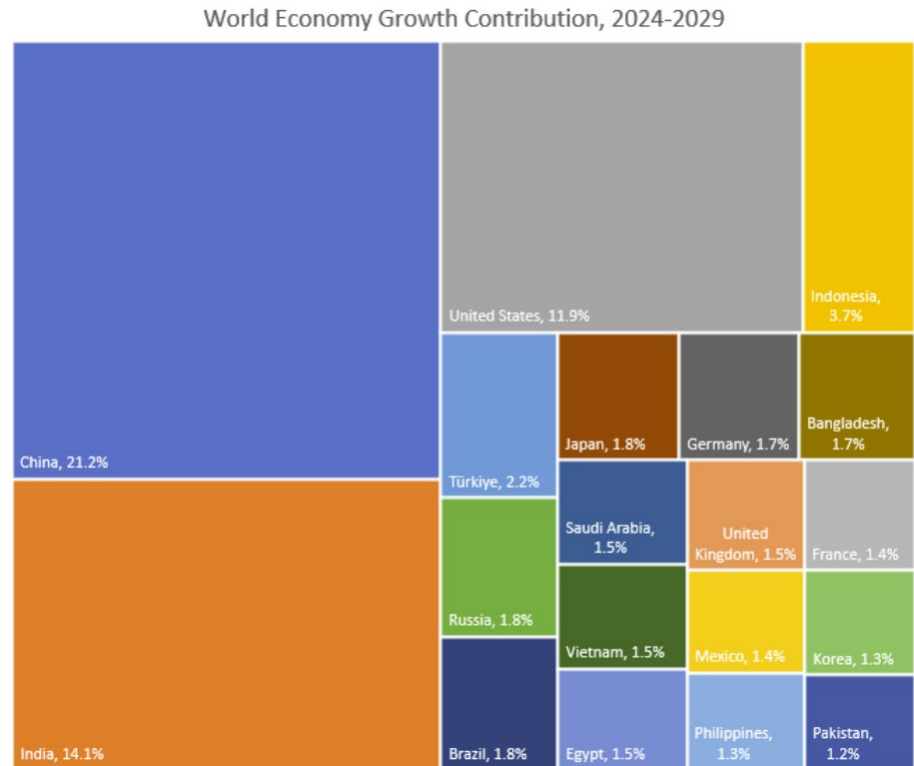


- Primary industry** refers to agriculture, forestry, animal husbandry and fishery and services in support of these industries
- Secondary industry** refers to mining and quarrying, manufacturing, production and supply of electricity, water and gas, and construction
- Tertiary industry** refers to all other economic activities not included in the primary or secondary industries, including real estate, finance, wholesale and retail, transportation and other service industries

Source: CEIC

Chinese Economy In Decent Shape, But . . .

- 2024 real per-capita household income up 5.1% YoY
- 2024 nominal retail sales up 3.5% YoY
- 2024 electricity consumption up 6.8% YoY (and 35% higher than 2019)
- IMF forecasts 2025 GDP growth of 4.6% in China, second only to India (6.5%)



Sources: Bloomberg using IMF WEO July 2024 forecasts; CEIC

... Consumer & Entrepreneur Confidence Is Terrible

- ❖ **Causes:** Private sector worries; chaotic regulatory environment; property; U.S.-China tensions
- ❖ **Cures:** Xi is likely to course correct back to pragmatism, but timing unclear

CONSUMER CONFIDENCE INDEX

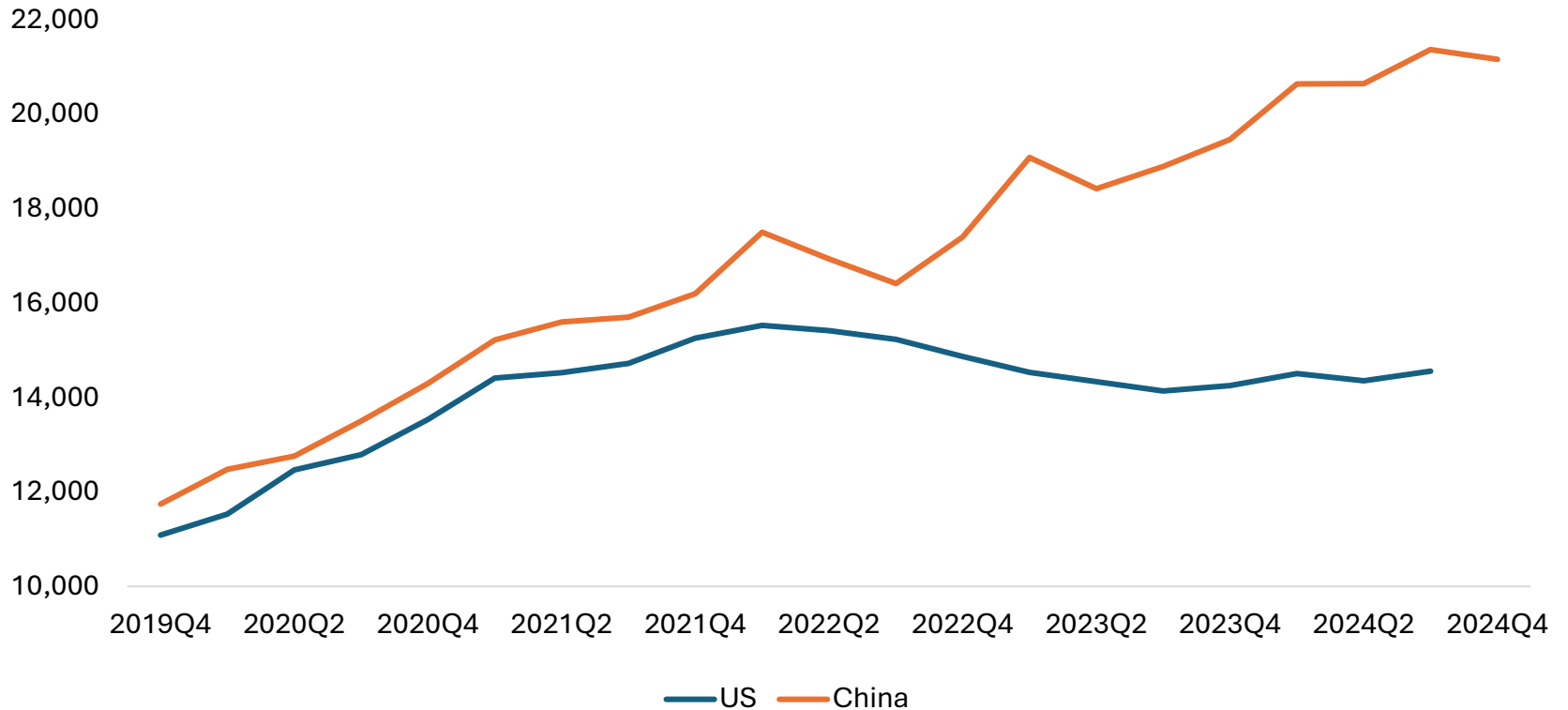


Source: CEIC

No Confidence To Spend Or Invest, Because Of . . .

US\$ BILLION

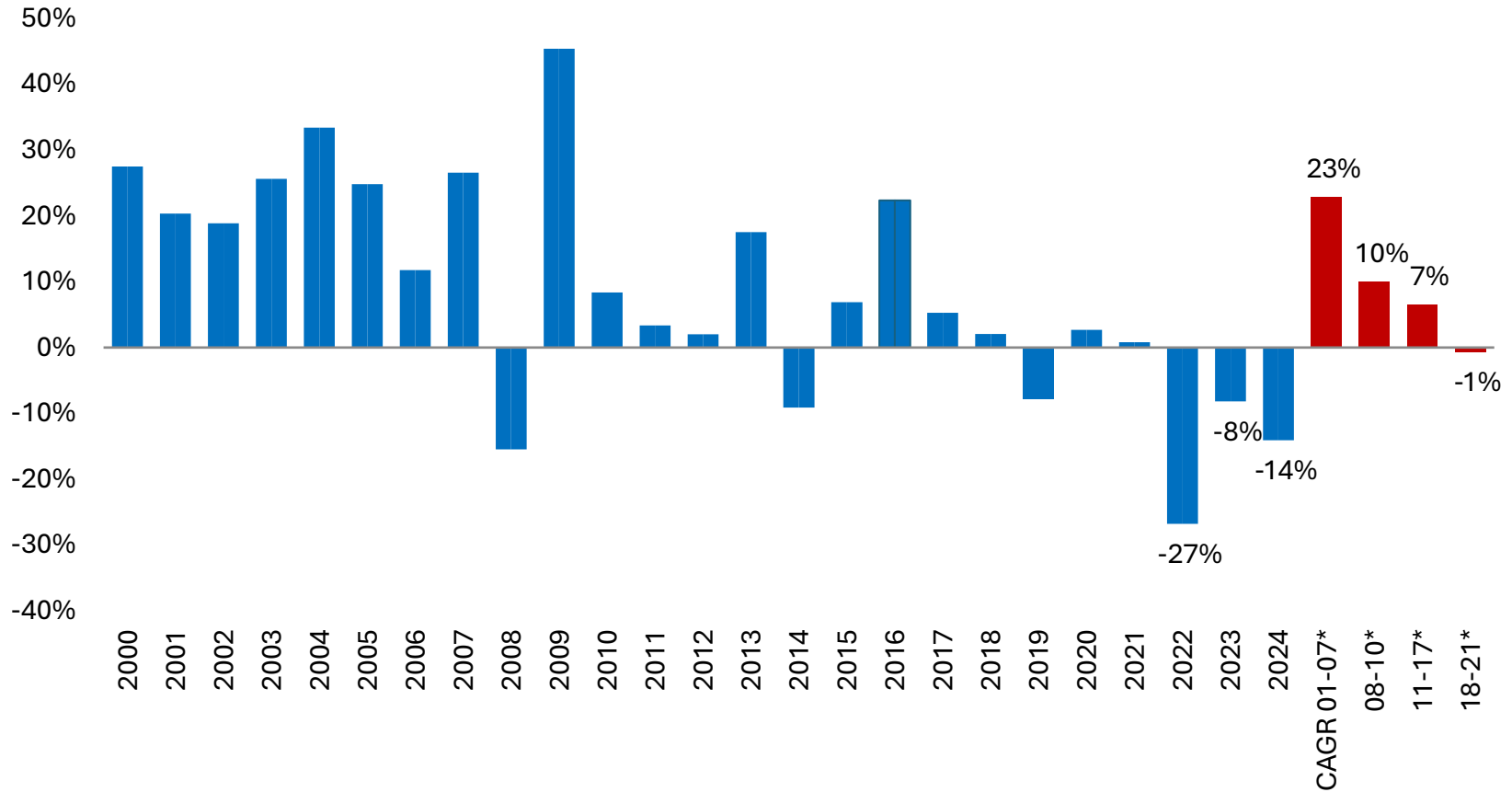
Household bank deposits outstanding



Sources: CEIC, US Federal Reserve

... A Volatile And Chaotic Regulatory Environment

RESIDENTIAL FLOOR SPACE SOLD BY SQM, YOY



Sources: CEIC, SinologyLLC

Xi Needs To Restore Confidence



COMRADE DENG XIAO-PING IN HIS SOUTH INVESTIGATION TOUR TO SHENZHEN

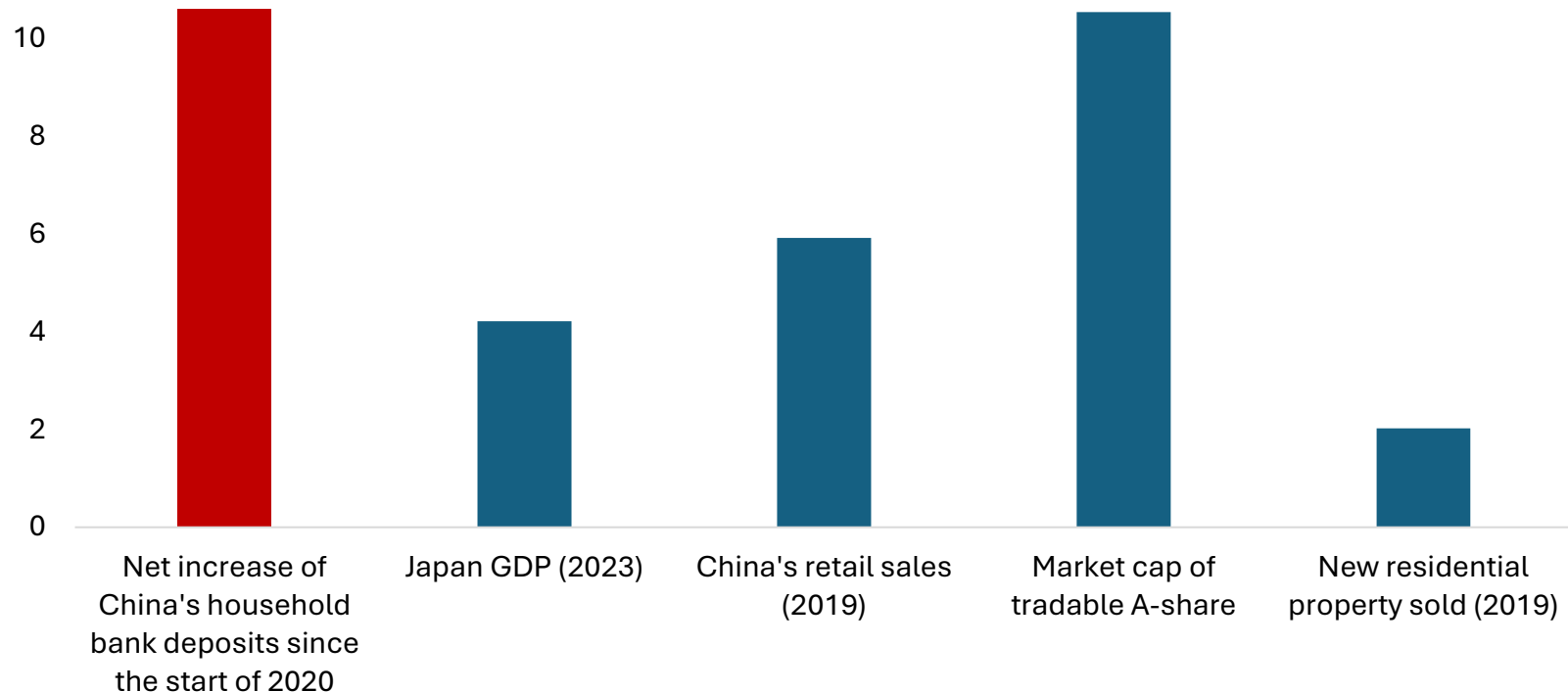
邓小平同志南巡深圳



When Confidence Returns, Household Savings Can Fuel A Recovery

Since start of pandemic, household bank deposits up 93%; net increase equal to \$10.6 trillion

US\$ Trillion

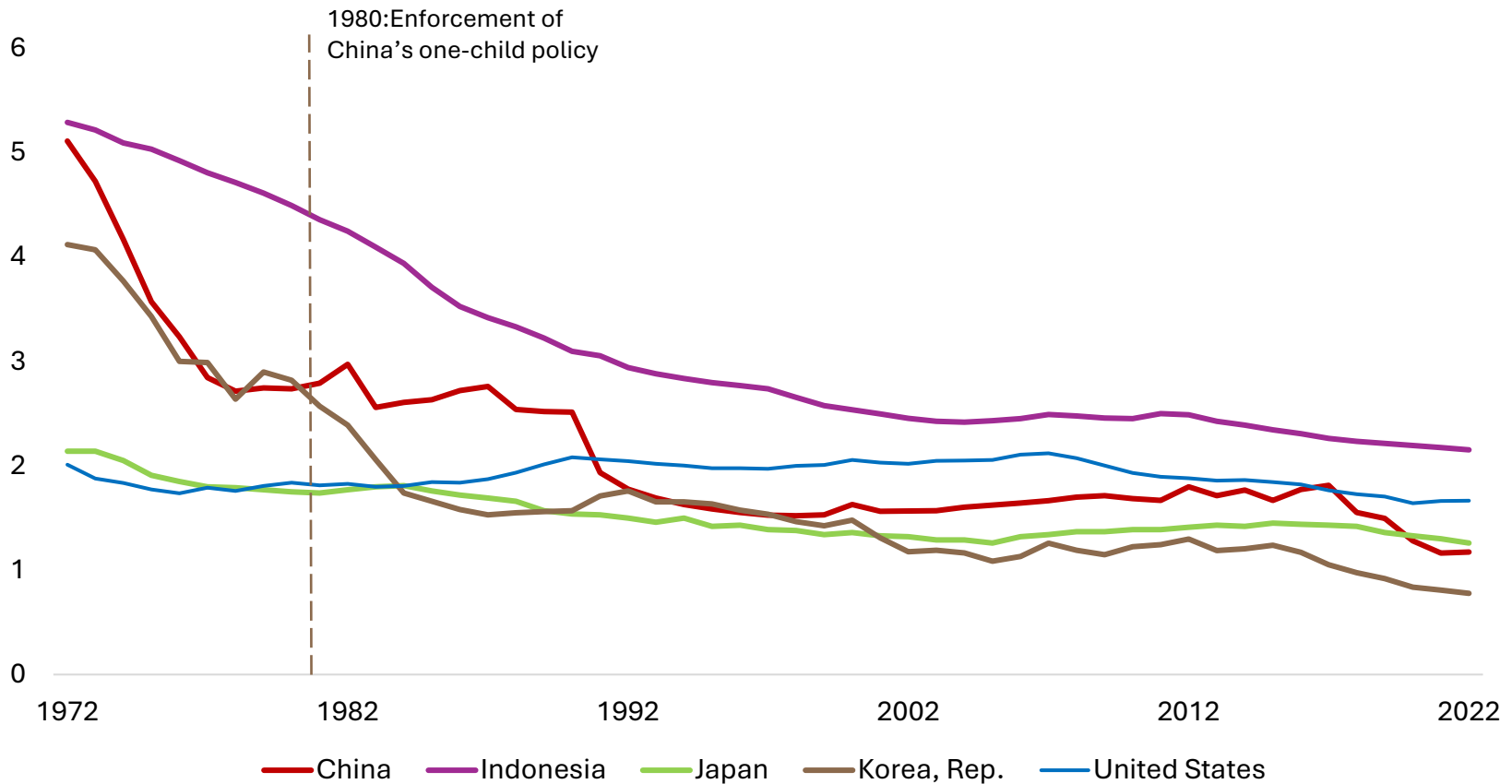


Source: CEIC. China's household bank deposits and A-share market cap are by January 2025

Demographics

End of One-Child policy was politically important, but wasn't the key driver of declining fertility rate

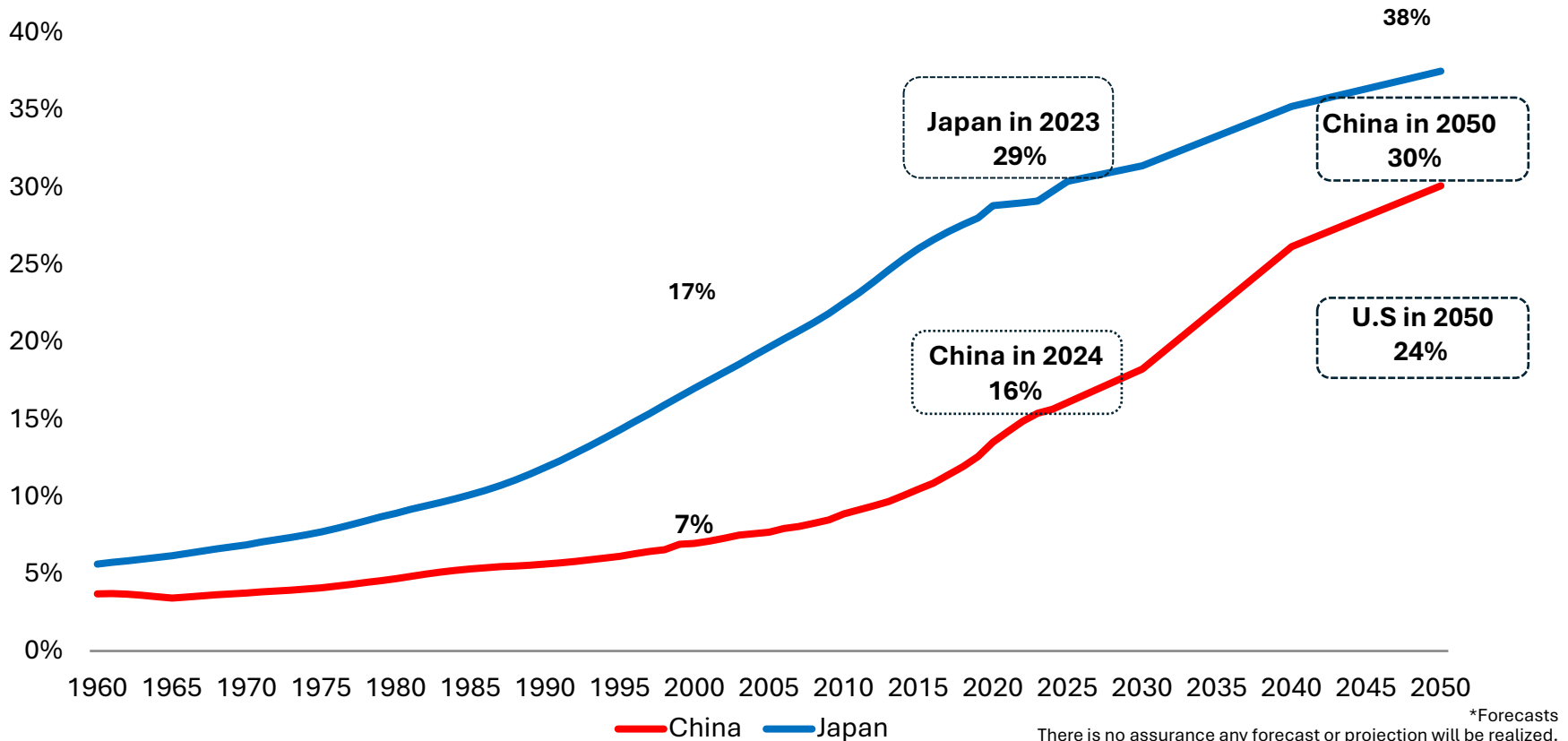
BIRTHS PER WOMAN



Sources: World Bank, United Nations, as of June 2024

China Is Aging, But Won't Be As Old As Japan Is Today Until 2050

% OF POPULATION AGE 65 AND ABOVE



*Forecasts
There is no assurance any forecast or projection will be realized.
Sources: World Bank, United Nations

With 40 years of experience, Andy Rothman, founder of Sinology LLC, has a unique perspective on China.

Andy Rothman provides advice to institutional investors and corporate directors on the opportunities and risks presented by China. He collaborates with Julia Zhu, his China-based research associate for more than 20 years.

Andy is also Senior China Fellow at the Asia Society of Northern California, and is a member of the board of directors of the Coral Tree Education Foundation.

Andy has provided advice to investors and directors, and spoken at board meetings and conferences on topics such as prospects for the Chinese economy and its private sector companies; navigating rising political tensions between Washington and Beijing; assessing risks of conflict across the Taiwan Strait; and China's impact on global supply chains and competition.

Andy began his private sector career in 2000, as the Shanghai-based China macro strategist for CLSA, an institutional brokerage and investment group. After living and working in China for more than 20 years, in 2014 Andy moved to California to become the China strategist for Matthews Asia, one of the largest, active, US-based investors in China's public equity markets. His clients included global wealth managers, pension funds, endowments, family offices, private banks, hedge funds and sovereign wealth funds. He established Sinology LLC at the start of 2025.

Previously, Andy had a 17-year, China-focused career as a US Foreign Service Officer, including serving as the Taiwan desk officer at the State Department in the mid-90s, when China fired missiles near Taiwan. His final diplomatic role was head of the macroeconomics and domestic policy office at the American embassy in Beijing.

Andy first went to China as a student in 1980, just a few years after Mao's death and the end of the Cultural Revolution. In 1984 he began his diplomatic career in Guangzhou, as Deng Xiaoping launched his economic and social reforms. He also attended China's first rock concert, by Wham!

