China Debt Dynamics

ShoreVest 新岸資本

The End of the "China's Uninvestable" Myth

Volume 10 | Issue 1
25 January 2026

Almost five years after China was widely condemned as being uninvestable, the narrative is finally changing. Foreign equity investors are rediscovering that China is in fact investable, and they're seriously underweight.

In reality, China was never uninvestable (in those "uninvestable" years, ShoreVest closed and exited more deals than any similar period in our 20-year history). The myth was simply a kneejerk reaction to policy changes that unexpectedly destroyed market value of some top performing firms. Foreign equity investors are now putting aside those reservations, drawn by resurgent valuations.

Although rising returns are the proximate cause of the revived interest in China, something more profound is going on underneath. Beijing's vision of China's economic transformation involves innovative and technologically advanced companies taking center stage (in place of old low-value sources of growth). And it involves a healthier credit market (replacing shadow banking as we have written). Both require a vibrant, dynamic, and high-functioning capital market to succeed.

Regulators are now stabilizing the way China's capital market functions, laying the foundations for private capital - including private credit - to play a more central role in the economy. As part of that process, authorities are improving the structural appeal of China's markets by reducing frictions and improving trust. This effort to improve China's stability comes just as the American government (the world's perceived "safe harbor") spent 2025 in chaotic pronouncements and erratic changes that were unthinkable in years past.

Assuming Beijing is successful, then we're at the start of a process designed to make China's capital markets more reliable and appealing than ever before, for both foreign and domestic investors.

The "uninvestable" myth

Some equity investors started calling China uninvestable in mid-2021 after Beijing abruptly asserted control over the tech sector and suddenly demanded that tutoring firms become non-profits, destroying significant shareholder value. That coincided with Beijing's relatively draconian approach to managing Covid-19, as well as pulling lending from developers, leaving many investors unnerved by Beijing's willingness to deploy its authority in ways that could change asset prices.

The narrative that China was "uninvestable" has lingered because there's been little reason to challenge it. After peaking in February 2021, equity prices fell for three years before mostly moving sideways until mid-2025. With the political relationship between China and the US deteriorating for most of that time, investors lacked motivation to stick their necks out for an underperforming market.

That's now changing. In 2025, Chinese stock markets significantly outperformed US markets, with the MSCI China Index surging nearly 30%, while the S&P 500 gained approximately 16.4%. This marked the widest margin of outperformance for Chinese equities against the S&P 500 since 2017. Analysts anticipate further China market gains in 2026. Consequently, China no longer looks so uninvestable.

But equity returns aside, the deeper reason the narrative was so flimsy is because China simply never was uninvestable. That sort of binary thinking works for pure macro plays on frontier markets, where investors enter or exit based on the political outlook. However, for an economy as large and sophisticated as China's, losses in one asset class often have no bearing on the performance of another. For example, the failure of certain venture strategies doesn't mean other strategies, such as private credit, aren't enjoying success. The trauma experienced by equity investors following 2021 wasn’t universal. In fact, during that period ShoreVest experienced some of our best returns over our 20-year history investing in Chinese private credit.

Long-term policy underpinning regulatory shifts

Of course, the uninvestable narrative wasn't just about returns. It was about the unpredictability of a system where the state reserves the right to intervene in the economy without considering the interests of investors. And yet, even as equity investors claimed China was uninvestable, [Beijing was consciously making ShoreVest’s private credit space far more predictable]() and "investable."

Long-time followers of ShoreVest will be familiar with the transformation. About a decade ago, Beijing recognized the importance of private sector investors in helping clean up the banking system. To that end, authorities overhauled the legal system to better protect creditors' rights, and formalized the asset resolution process so that secured credit investors could usually be confident of a legal resolution in about 18 months. Collateral assets were then auctioned publicly and transparently by the courts using online platforms like JD.com and Alibaba's Taobao.

Beijing also cleaned up its financial system by reining in property development lending, as well as shutting down most of the shadow banking system. Although some of this short-term pain contributed to global allocators’ reluctance to invest in China, ultimately the moves have put China’s financial system and property markets on surer footing for the long-term.

We're now seeing regulators reforming China's stocks markets in ways comparable to what we previously experienced in private credit. For decades, China's stock markets have been relatively peripheral to China's economic performance. That's now changing. Beijing wants innovative tech firms - which typically struggle to tap bank credit - to fund themselves via the capital market. It also wants the capital market to replace housing as the engine for middle class wealth generation. And with China's population rapidly aging - and the state pension system inadequately funded to meet the needs of a rising number of retirees - rising stock valuations could help finance the pension system.

To that end, Beijing wants to deliver a "slow bull" market whereby - notwithstanding two-way volatility, and the occasional correction - stock prices gradually rise over time. Since Q1 2023, the government has been striving to deliver this by:

- Building public trust in the market by imposing discipline on market participants
- Delivering real returns
- Ensuring corrections are short-lived by rebalancing the market away from retail investors toward long-term institutional investors
- Creating exciting investment opportunities by encouraging companies with innovative technologies to list

Beijing has demanded that listed companies increase the size and frequency of dividend payouts, and it's pushed companies to do share buybacks, which the PBoC has enabled by providing cheap credit. Efforts to boost the role of long-term investors have mostly focused on reducing the amount of capital insurance companies need to hold, and relaxing the rules governing how much they can invest in stocks.

Regulators are trying to create exciting investment opportunities by allowing innovative firms in certain industries to list even if they have not yet turned a profit. And they're building public trust by prosecuting financial crimes more aggressively, exerting greater oversight over what types of companies can IPO, cracking down on the revolving door of regulators going to work in the financial sector, tightening financial penalties for corporate malfeasance, making it harder for insiders to sell shares, providing better protection for whistleblowers, and forcing loss-making companies to delist.

Beyond stocks, Beijing has been engaged in a wide-ranging campaign to ensure the capital market is capable of meeting the diverse needs of both companies and investors. Authorities have overhauled rules to facilitate more M&A deals, giving start-up founders - and their VC investors - more opportunities to exit, and large firms an opportunity to acquire the tech they need. Authorities have been experimenting with green bonds and bonds to fund tech startups, and encouraging the securitization of infrastructure. Furthermore, authorities have been gradually liberalizing rules to make it easier for foreigners to trade futures and fixed income products.

The goal isn't to replicate Western-style capital markets. The state remains very hands on, taking responsibility for decisions typically made by private institutions in the US - like deciding who gets to launch an IPO. But just because Beijing insists on maintaining a role, doesn't mean that role will be destructive. Beijing was caught off-guard by the market reaction to the tech crackdown and its education sector reforms, and has become more mindful of how its actions impact investors.

Beijing's drive to overhaul its capital markets isn't about making them "investable" - they've already been that for years. Rather, it's about harnessing the capital market to support the rapidly changing needs of the economy. That requires China's capital market to grow far bigger and more diverse than it currently is.

To achieve that growth, Beijing is striving to make capital markets more professional, sophisticated, and trustworthy, with less friction. In short, China's authorities are building the foundations of a more mature market capable of absorbing far more capital. That process will take time, but the net effect will be an environment foreigners are far more comfortable investing in.

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