

# China Debt Dynamics

*China: An Uncorrelated Harbor in a Stormy World*

ShoreVest

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As we read the international news from here on the ground in China, the world appears engulfed in a storm leaving few, if any, places to hide. If last week's widespread selling of the safest investments (US treasuries) is any indication, faith in the world's safest harbor seems shaken to its core as the US sweeps the world into the vortex of its own tempest.

In sharp contrast, an air of calm and optimism persists here in China. Last Friday, a few of us at ShoreVest attended a close friend's IPO at the Shenzhen Stock Exchange, where excitement abounded as the ag tech company's share price shot up. In other conversations with business and government, there is a sense of resilient confidence. While China has been incorrectly castigated in recent years as "uninvestible," ShoreVest's view (as we have repeatedly written) is that many of the misunderstood regulatory moves by Beijing were simply for the sake of long-term stability – even in preparation for this moment. Resilience and stability are what China was seeking, and on the ground that's how it feels today (only ~3% of China's GDP comes from exports to the US, so even US tariffs have limited impact).

It is heartening for China to be attracting friends and even adversaries (e.g. Japan, South Korea) into its orbit in their quest to hedge their bets in America's new zero-sum game. This is exactly what we predicted would happen in our [China Debt Dynamics: United States of China](#) piece in December. From "China-plus-one," the sentiment seems rapidly shifting to "America-plus-one," in search of a large and resourceful ally as a stable trading partner and strategic anchor in a world stormed by erratic pronouncements and unstable actions.

Amidst the global economic order upheaval, an ascendant China (already on the path to recovery from its property sector meltdown) is being recognized once again as a potential safe and uncorrelated harbor the world seeks. The second largest economy is also the second largest importer of merchandise, offering a market for global manufacturers, including now displaced exporters to the US. As the world's largest exporter of goods, China is also the source for key inputs (e.g. rare earth minerals, pharmaceutical ingredients, etc.) and high-value goods (e.g. robots, EVs, etc.) to fulfill demands of manufacturers and consumers alike. With fraying US trade and military alliances in Europe, many EU countries are seeking a more respectful cooperation with China.

Furthermore, with funding suspended by USAID to many developing countries, China is stepping in as a financier of last resort to help develop the global south. Just as US tariffs were indiscriminately hiked even for many poor African countries, Beijing eliminated tariffs on imports from many of the world's least-developed countries.

Besides trade, it is becoming increasingly clear that China is an innovation hub second to none. Thriving in the face of adversity is a hallmark of China's tech innovators (as seen in DeepSeek, Huawei, SMIC, CATL, etc.). In contrast to the protectionist tariff approach now used by the US administration to try to spur its domestic manufacturing, China instead uses State support and bank lending to encourage tech, biotech, green energy, agriculture and other sectors in recognition of their importance to China's (and the world's) future.

China also increasingly appears more friendly for both education and business than the US is becoming, with rising incidents of American detention of foreign-born students and professionals and sudden cancellation of student visas.

It is fair to say that the recent US abdication of its role as a leader of the democratic world paves the way for a multi-polar world, where China's central government-managed approach to economic prosperity can happily coexist along with a legion of democracies. In this light, China will always remain an important global force that should not be underestimated. For global allocators, and especially those seeking all-weather strategies like private credit, ignoring China would be at one's peril. Not only is China clearly investible (as seen in ShoreVest's 20+ years of success in the

country), it is likely the least correlated large market, driven by local idiosyncratic opportunities, affording a safer harbor during tumultuous times.

In virtually every conversation we have had recently in China (from government to business leaders, even down to taxi drivers), the common refrain is this: “Can’t we just get back to doing win-win (共赢) business?” ShoreVest echos this sentiment.

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