

'Chinese Manufacturing Eats The World'

An Aravis Trip Report: China 2026



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Introduction

Before we start, a few guidelines on what this report/essay is and isn't. It is not a sell-side-style analyst report that seeks to exhaustively focus on hard data. There are hundreds of China-focused analysts globally producing thousands of reports weekly, and I cannot hope to add anything new to those discussions. Instead, this will be closer to a travel diary-cum-essay, discussing the country, companies, industries, and the economy at large – based on observations and conversations at a local level during my recent trip. As ever, we were expertly guided by our China manager, FountainCap Research and Investment. This essay will also frequently offer comparisons between the US and China. If we are indeed in a multi-polar world, it is surely worth spending time on the competition that may define the 21st century.

My thanks to Frank Ding, Steven Luk, and the wider team for the endless translation and guidance throughout the week. We hope to run this trip annually moving forward, so please contact your relevant Aravis representative should you have an interest in attending in the future.

Shifting Narratives

"It was fascinating and impressive but ultimately deeply disturbing, a vivid confirmation of what a U.S. businessman who has worked in China for several decades told me in Beijing. There was a time when people came to America to see the future, he said. Now they come here."

– Thomas Friedman writing in the New York Times, April 2025

Friedman's comment was made specifically about his visit to the Huawei campus, but as a Brit reading about the 'death of Europe' on a weekly basis, it is hard not to share his sentiments. If Friedman's sliding doors moment came at the Shenzhen campus of Huawei, mine arrived 1200 miles north, at Xiaomi's EV factory outside Beijing. A dark and near deserted factory churning out 30k cars a month with a 90% automation rate and 25% profit margin is a death rattle for European auto makers and a broadside for the rest of the world on China's climb up the value chain. If 'Vampire Squid' was applied to Goldman Sachs in 2008, China in 2025 looks like a boa constrictor wrapped around the world. The pertinent question doesn't feel like 'if' China can offer meaningful competition with the US, but 'when'. I will attempt to offer a 'how' with this report.

This year's trip, guided expertly as ever by the FountainCap team, took us north to south, landing in an autumnal Beijing before moving to Hefei and then onto the cauldrons of Hong Kong and Shenzhen. We visited national tech champions (Xiaomi), emerging consumer powerhouses (Pop Mart), green energy manufacturers (Sun Grow), AI supply chain lynchpins (Avery Holdings) as well as speaking with officials, power grid experts and consumers. While not exhaustive, I think it stands as a good proxy as one can hope for over the course of a week.

This year's itinerary looked quite different from 2024, and I think it reflects the shifting sands of the China story both from a political and investment standpoint. Last year, there were still whispers in the corridors of banks and asset managers that China was truly 'un-investible', that the property slump had delivered a structural, and near fatal blow, to the world's second largest economy. The phrases 'multipolar world' and 'great power competition' were as distant in the mind as Donald Trump securing the White House for a second term. And yet, as of November 2025 it feels like a lot of the world has accepted (Trump included if we take the recent meeting into account) that the American century has ended. And while the much heralded 'Asian Century', the idea du jour for IR academics in the early 2000s, still feels distant, we must take seriously the idea that we are returning to a world with two key poles of power in Beijing and Washington. While I will not tend to dwell on the political future too much, there will still be plenty of reference to the US given the near symbiotic state of the two countries in any political or economic discourse. With this shift in narrative politically, and a return to form for Chinese stock markets, it felt appropriate to spend less time with officials (there might be a limit on how much green tea and platitudes a man can tolerate!) and more meeting with the engine room of Chinese growth: the private sector.

Key Points

1. Chinese Value-Add

Historical pattern of Chinese components/assembly with Western design and IP is reversing. Many examples we saw of Chinese IP, design and assembly being combined with high-end western components. Majority of firms visited focusing on building brand value to take margin away from western companies in China. Every firm is trying to move up the value curve.

2. AI as a Force Multiplier

Vast majority of AI investments from corporates has been aimed at industrial/application layer. Focus has been on improving underlying businesses to increase margin and efficiency. LLMs are seen as fully commoditised and most firms will create their own (open source). Broadly the trend is away from wasteful generative AI, and towards tangible use cases, predominantly in manufacturing and industrial sectors.

3. A Hybrid Economic Growth Model

Prior 'Brute Force' era of scale and speed above everything is mutating. Top down/bottom-up approach can target and subsidise strategic sectors, producing rapid advancements with private sector innovation. China historically was an early-stage imitator and world-beating scaler. Evidence that it is now an early-stage innovator alongside unrivalled speed and scale.

4. Upgrading Consumption

As China has moved up the value chain, so too have consumers moved up the consumption chain. Any brand competing on price and volume has been losing share, while luxury brands have been able to maintain share. A barbell has emerged where the only true moat for western brands will be factors that cannot be replicated; heritage and prestige.

5. Troubles of Youth

I wrote last year about social media creating a monoculture globally. This has also extended beyond material needs with China's youth struggling with continued high unemployment levels and feelings of angst, distrust of institutions and economic nihilism in a world that they feel has left the youth behind.

6. Convergence

Nearly all discussion has been of a multipolar world. Seems more likely we see a bi-polar system dominated by US/China at the expense of the 'middle powers'. Key observation is that while US/China will diverge politically, their economic models are converging.

Further Points:

- **'Made in China' = 'Made in India/SE Asia'?** As the Trump administration has pushed for re-shoring its manufacturing base and IP, Chinese firms are responding in kind. Nearly every firm we visited had kept key manufacturing/R&D/IP within a single domestic location with the corollary being shifting low margin manufacturing/assembly to India and South East Asia.
- **Vertical Integration is King:** Chinese companies rapidly moving to full vertical integration. Dual government priorities of a self-sustaining and domesticated economy are driving this change across industries. This shift is subsidised by the government, leaving Chinese firms with sizeable competitive advantages in international markets.
- **Corporate Governance Improving:** A market long associated with dubious accounting and poor management culture is shifting rapidly. The government drive to improve standards is working with nearly every company we visited moving to paying a dividend and thinking more on shareholders treatment and returns.

Back to the Future: Beijing vs. Shanghai



For anyone pushed for time, there are worse ways to experience the tapestry of modern China than a mad dash from Shanghai airport to Beijing via high-speed rail. One is greeted in Shanghai with the signs of a country that is embracing the future: people are younger, EVs are everywhere and clouds of vape smoke are more common than smog. Beijing is an exercise in contrast.

A way to travel back to the near past – men squatting, smoking cigarettes and driving spluttering taxis made by manufacturers long since bankrupted by the relentless wave of electrification. In a country that has become synonymous with innovation and modernity, it is almost a tonic to see the slower pace of life, the tinkle of bicycle bells and laughs of men playing mah-jong on the street. If we are trying to look for unconventional explanations to the success of the Chinese model, 'capitalism with Chinese characteristics', then we can do worse than look to the value of Beijing as a control valve on the what the party might see as the capitalist instincts of Shanghai. Shanghai the bottom-up driver of growth, Beijing the top-down control.

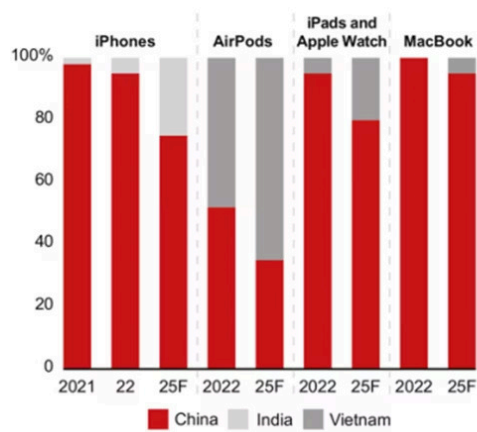
Speaking to older Chinese is just as jarring. A substantial portion of China's aging population have experienced the two book ends of modernity: born into a feudal age and likely to die in a digital one. My Beijing tour guide provided a perfect example. Now in his mid-40s, he had never seen a train until he went to university – a 48-hour slog across chaotic rail connections. It now takes him a little over 4. His parents, who are now in their 80s would have tilled barren soil with an ox-dragged plough, now use an automated tractor, controlled via smartphone, to tend to their plot. The necessity of subsistence farming a distant memory in an age where a plethora of food choices are available a click away via Meituan. Today's pace of change is naturally slower as the economy matures, yet beyond the bright lights of Beijing and Shanghai, the relentless creep of modernization and urbanization continue.

Chinese Value-Add: Moving up the Curve

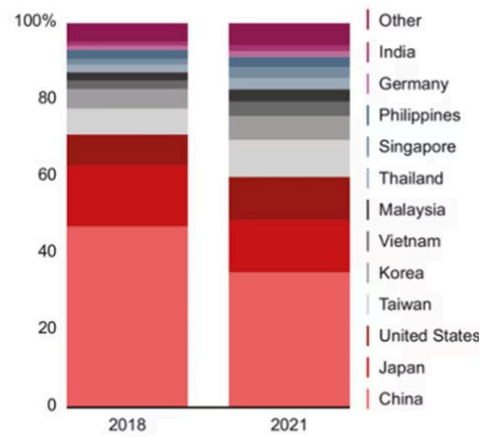
To speak very broadly about the historical economic models of East Asia, a familiar pattern emerges over 400 years. First identified by colonial powers, and more recently multinationals, the labour cost arbitrage between East and West was severe enough to fully outsource low margin assembly, manufacturing or harvesting jobs while making sure that the bulk of the profits were kept at home. From the Portuguese in the 16th century to the British in the 19th, everything from coffee, opium, pepper, rubber, sugar, tea and tin were harvested locally and sold back into the West at considerable margin. By the mid 1980s, with globalization and the technology revolution in full swing, this had shifted from commodities and spices to low-cost electronic assembly and semiconductor manufacturing for the new economic powers in Japan and the US. In both instances, as [Joe Studwell points out in his excellent books](#) on the region, a country's ability to move up the value chain was limited by an often forced lack of margin and indigenous IP, which drove the corresponding inability to scale.

Spending time with companies and industry in China these last 2 years and one is struck with the fact that this model, certainly in China, is not only dead, but in many cases reversing. China's rapid upward movement across value chains globally is perhaps best reflected in the changes seen in the iPhone. When the iPhone 3G is launched in 2007, Foxconn was the sole China-based supplier, by the iPhone X's 2019 debut, this had grown rapidly to 10 domestic players. [While Nikkei suggests that this trend has diminished under geopolitical tensions with the iPhone 15 Pro Max](#), which has led to Apple attempting to move considerable parts of its supply chain to India and other South East Asian countries, it is important to look beyond the headlines and understand how China has adapted and benefited from these shifts.

Apple final assembly volume by geography



Apple supplier number of locations



We can make two key observations from these changes that demonstrate not only Chinese firms moving up the value chain, but just how entrenched Chinese manufacturing has become to the world's second largest company:

From Assembly to Complexity

Some of the key Chinese contract manufacturers including Sunny Optical, Luxshare and Wingtech have all taken increasing share in more complex component manufacturing from previously dominant Korean and Taiwanese firms. To zoom in on Sunny Optical, not only have they displaced Taiwanese competitors since entering the supply chain in 2021, but continued advancement of their camera modules has seen lens orders move from around 5% to closer to 15% as well as moving into the Macbook supply chain. In effect, Sunny are winning more market share not by competing on cost, but on pure technical know-how. The Luxshare story offers a more literal example with founder Grace Wang starting on the factory floor of a rival contract manufacturer, Foxconn. With her knowledge, she was able to build Luxshare into the dominant supplier of cabling for Apple. Since then, and with years of process knowledge and IP built up, they are the sole manufacturer for Apple's vastly more complex (and higher margin) VR headset, the Vision Pro.

Supply Chains Move, Suppliers Stay the Same

While the location of physical supply chains, most notably assembly, have shifted, the core suppliers have largely remained similar. Higher end components are still dominated by US, Japanese, Korean, Taiwanese and increasingly Chinese firms. We saw similar from PCB maker Avary Holdings, whom we met in Shenzhen. With 70% of their revenue coming from Apple, they emphasised that they had opened new manufacturing facilities in India and Thailand, but IP and design were retained in Shenzhen. As the below chart demonstrates, 'Made in India' might be closer to 'Assembled in India', with Chinese and Taiwanese firms highlighted below.

Apple's iPhone Supply Chain For India

Apple Products And Components Manufacturers	Companies	Plant Location	Head count
iPhone Charger Cables & Connectors		Andhra Pradesh	3,058
Battery Packs		Tamil Nadu	4,000
iPhone Assembly (56%)		Tamil Nadu	41,282
PCB Mounting & Plating		Karnataka	120
Airpods Components		Pune, Maharashtra	2,500
iPhone Chargers		Tamil Nadu	NA
Logic Boards & Circuit Components		Tamil Nadu	800
iPhone Assembly (10% of Indian)		Tamil Nadu	10,000
Packaging		Karnataka	613
Battery Cells Assembly		Uttar Pradesh	5,000
iPhone Assembly		Tamil Nadu	20,000
Battery Cells		Haryana	2,250
iPhone Assembly		Karnataka	10,000
PCBs		Tamil Nadu	NA

Patrick McGees recent book *Apple in China* makes this point exhaustively; Apple has not only gifted China jobs, but far more valuable world leading manufacturing and technological knowledge. Simultaneously, China has rapidly scaled up its own domestic challengers to the company (Huawei, Oppo, Xiaomi), all the while building significant political leverage over the firm. A true public/private sector collaboration!

While the majority of an iPhones value is accrued by US-based Apple, it still depends almost exclusively on foreign firms to manufacture its most advanced components; memory chips (Korea), processor chips (Taiwan), displays (Korea), and camera sensor (Japan). Our trip provided evidence that leading Chinese firms were increasingly learning from the US giant in this respect. The historical model was to use Chinese assembly and low cost manufacturing, while retaining elements like IP, design and retailing within the US/Europe. We saw many examples of the inverse. Domestic Chinese firms dominating innovation, IP and advanced manufacturing while outsourcing select elements of production to Western firms. At Xiaomi this took the form of Brembo brakes on the most exclusive models. Xiaomi could do this in-house or domestically, but chose to partner with established foreign specialist manufacturers to create a better product, while still retaining the most margin accretive activities in the chain. We also observed the following:

- Brembo brakes and Michelin tyres in Xiaomi Cars
- French manufactured turbines for Hydroelectric power generation

- FANUC Japanese robotics in leading factories
- Nvidia GPUs still used for training within multiple companies
- Infineon and Fuji providing chips for robotics



Michelin tyres (French), with Brembo brake calipers (Germany) made on a Xiaomi alloy (China).

Now the multi-billion-dollar question is whether this is temporary or a persistent trend? Robin Harding's [recent FT article has argued that China is aiming to dominate production of all goods to feed its export market.](#) I agree with his view that current trajectory will see entire industries hoovered up – the Chinese boa constrictor model has not spared many sectors from 'domestication' thus far. Robotics and automation, two key areas of focus for Beijing, are prescient examples. With the [average subsidy rate in the sector approaching 18%](#), expect complete domestic dominance within the decade. That said, I would disagree slightly in the case of consumer companies, where this trend may be more durable. To the point made in the image above, there is nothing that stops Chinese EV companies from using domestic brake and tyre suppliers – cost and technology barriers do not exist – and yet many continue to choose Western components given their brand power. As we will cover later, brand and heritage might be the only anti-venom for Western companies facing down the growing China constrictor.

AI as a Force Multiplier

"A lot of investing is just about avoiding unforced errors. Don't be a pig." – @BuccoCapital as seen on X

If Beijing and Washington can agree on anything in the age of decoupling, it is that 'winning' the AI race may well be existential. Beneath that headline, there seems to be a disagreement on what 'winning' looks like. To reduce it to its simplest terms; the US is betting on AGI offering a new productive force that will reshape the economy, while China sees it as adding additional leverage to its dominant manufacturing ability.

In keeping with the quote above, the US has very much been in the pig camp. The size of the bet that the US Government and technology companies are taking (and potentially soon to be backstopping) is quite staggering; **US Data centre capex will hit \$390bn this year rising to \$540bn in 2026** according to the public numbers from the US hyperscalers. To use Oracle as a yardstick for the increase in spend: they estimate they will spend \$115bn across 2025–27, up from \$10bn in 2024. Goldman Sachs forecast that **China's hyperscalers total collective capex on AI and data centre build out will reach \$70bn in 2026. By contrast, Meta is estimated to spend \$100bn in 2026 alone.**

So what explains this gap, and if not in models, where are Chinese companies seeing the AI puck in 2025?

1. China is betting on AI being a force multiplier on economic competitiveness

"Fundamentally speaking, algorithms are not in the hands of IT people, but in the hands of power experts, infrastructure experts, coal experts, medical experts, and various industry experts... In practice, China's manufacturing industry is using artificial intelligence very quickly, and many Chinese models will be born." – Ren Zhengfei, Huawei Founder

One of the earliest signals one is greeted with when landing in different Chinese cities is the airport advertising. Predictably, Shanghai remains a temple to luxury; Porsche, Loro Piana and Rolex adverts dominate arrivals. In contrast, technology hub Shenzhen presents endless billboards covering AI. Most pointedly, these are not for models or subscriptions but almost exclusively promoting the integration and the application layer. Huawei Founder **Ren Zhengfei's recent interview in the government mouthpiece People's Daily** (above) was telling of where the party, and the large technology businesses, see value in AI. This was true from nearly every company meeting of our trip. Xiaomi, iFlyTek and MindRay had already developed their own models to complement and enhance their businesses. The government is betting that supplementation, not transformation, of its existing strengths in manufacturing, engineering and hardware, will provide a new leg of growth for the economy.

This idea was probably best summarised by Andrew McAfee, Principal Research Scientist at the MIT Sloan School of Management, when [he argued that AI will likely be a 'General purpose technology'](#) which will permeate all levels and sectors of the economy to deliver productivity improvements. His comparison of AI with the arrival of the steam engine– by no means the end point of the technology, but the central cog from which all developments will subsequently flow– feels close to Beijing's view on the technology.

To this end, iFlyTek, a leading translation software business that we met in Beijing are an excellent example. Their Co-Founder noted that for the company, AI remained an industry-first story. They have been able to implement models across education, industrials and healthcare. Their technology is integrated into 15 government agencies covering smart contracts, policing and maintenance of government standards. All this has been achieved via training done solely on Huawei and other domestic chip suppliers. The pinch of salt needed here is that iFlyTek is a quasi-SOE, and thus unlikely to be chasing Nvidia GPUs, but the direction of travel is still clear. Robin Li, founder of leading search engine Baidu, recently read from a similar script at the governments 'AI+' initiative:

“AI, as a key driver of the new wave of technological and industrial transformation, is vital for accelerating the emergence of new quality productive forces and achieving high-quality economic and social development” – Robin Li speaking at Beijing's 'AI +' Forum, November 2025

If we can look past the typically vague and platitudinal soundbite, providing the keynote at a government-sponsored AI event is as close as one gets to government underwriting of corporate strategy.

2. 'Don't be a pig'- The 'accidental' AI strategy

Speaking with FountainCap's analysts on the trip and our discussion turned to subscription businesses in China and their relative lack of success. To my surprise, the model that has seen huge success in the West (Amazon Prime, Netflix, Spotify etc..) was effectively a non-starter in a country where competition is fierce and consumers remain price obsessed. If we look at China's approach in LLMs, this is reflected – all remain open source/open weight and free-to-use products. This has provided China two distinctive advantages against the US when it comes to AI. The first is that by bypassing the consumer, the 'slop' stage of generative AI, has largely been avoided. While I have taken great pleasure in seeing [Sam Altman robbing GPUs as a viral video](#) and [people prank their parents that a homeless person is staying in their house](#) (yes, really), burning through tens of billions of compute to generate 'slop' content hardly feels economically transformational. As computer scientist and machine learning pioneer Gary Marcus bluntly puts it:



Gary Marcus
@GaryMarcus



When I started working on AI four decades ago, it simply didn't occur to me that one of the biggest use cases would be derivative mimicry, transferring value from artists and other creators to megacorporations, using massive amounts of energy.

This is not the AI I dreamed of.

To Bucco's point above– **'winning' the AI battle might simply be a case of avoiding an unforced capex error.** While some parts of the Chinese tech ecosystem have spent relatively sizeable sums, it's worth noting that Tencent, China's largest tech company, has reversed course. Capex in Q3 was slashed by 38%, having ramped spending last year in anticipation of AI needs. While that may be seen as a surrender in the model wars, the company announced that its integration of AI into the Tencent ecosystem was yielding real world results; double digit increases in gaming and ad revenue were partly attributed to AI efficiency and targeting effects. With no consumer subscription revenue in sight, the models have been the victim of an accidental forcing mechanism, whereby in a land of commoditisation, the model delivering high benchmark scores combined with the lowest token cost, is king. As the world found out in January with the release of DeepSeek R1, both elements can be true.

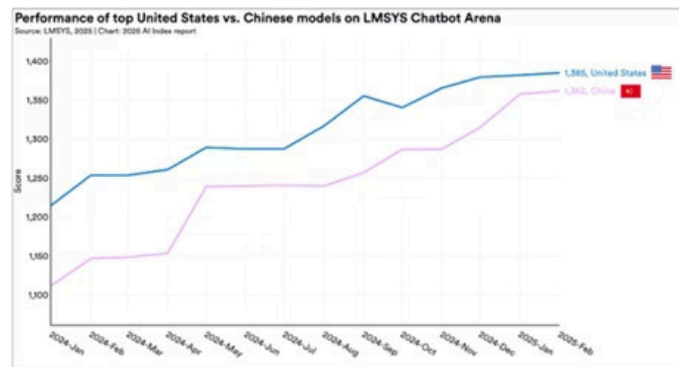
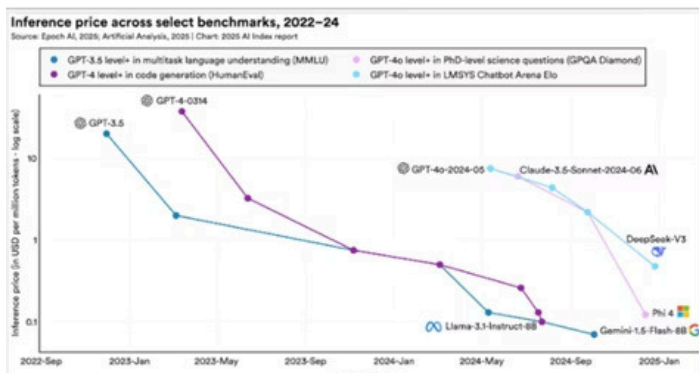
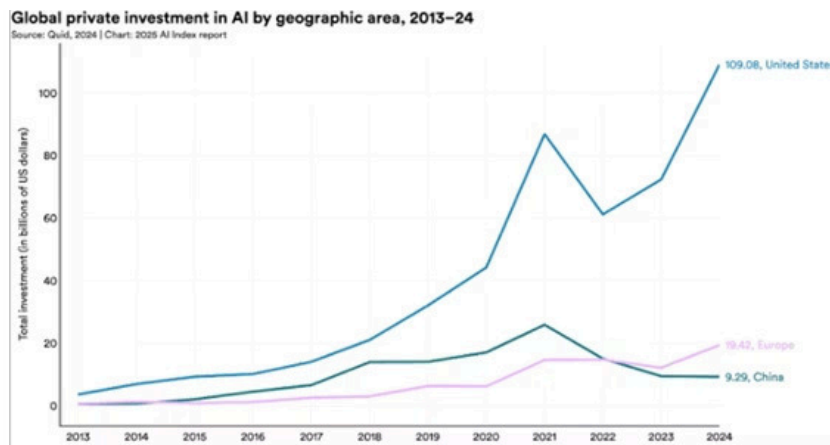
Beijing has approached AI models and their proliferation, with a playbook used to foster and cement its global EV dominance. Heavily subsidise and incentivise the sector, create world-leading products through intense (and often uneconomic) competition and export globally at a price point that international players cannot compete with:

Price per 100K tokens (example): To illustrate real costs, consider 100K input + 100K output tokens (a large query). Using the above rates:

- GPT-5: $0.1 \times \text{input cost} + 0.1 \times \text{output cost} = \$0.125 + \$1.00 = \1.125 .
- Gemini 2.5 Pro ($\leq 200K$): $\$0.125 + \$1.00 = \$1.125$ (same as GPT-5 here).
- Claude Sonnet 4: $\$0.30 + \$1.50 = \$1.80$.
- Grok 3 (std): $\$0.30 + \$1.50 = \$1.80$ (identical to Claude Sonnet).
- DeepSeek (miss): $\$0.028 + \$0.042 = \$0.070$.

This cost advantage, combined with the open-source/open weight structure of the models has proven remarkably effective to help proliferate their usage by domestic companies. Healthcare services provider MindRay, who we saw in Shenzhen, had built in-house models from the DeepSeek platform, focused on providing doctors predictive diagnosis based off their current diagnostic hardware machines. Xiaomi had taken that further, in part due to their existing tech stack, by partnering with TSMC to produce a 3nm chip, which Xiaomi will design and use in-house for its existing product line up– from phones to cars (below). The openness of the models has also allowed them to make inroads internationally. In the summer it was reported by an Az16 Partner that a majority of start-ups were integrating and building on top of Chinese, not US models. With the benchmark scores largely being equal across models, the key decision for companies is around token cost, and here China is levels cheaper than its US competition.

It is yet another example of China increasingly competing with, and in some cases usurping, US and European innovation, at lower cost and greater speed. Should the much-cited Jevons Paradox hold, then Chinese models will be increasingly hard to compete with on the global stage .



Stanford University Human-Centered Artificial Intelligence: AI Index 2025: State of AI in 10 Charts

Faster, better, cheaper: Chinese models continue to offer dramatically cheaper tokens for equivalent performance to leading US models (above). Xiaomi are developing a domestic chipset to work across their product ecosystem – Cars, IOT and Mobile (below).



3. The Power Equation

An investor recently remarked to me that China and the US are running in opposite directions when it comes to the AI value chain. China has a shortage of GPUs and a glut of power. The US has a glut of GPUs and a shortage of power. Given the ramp times in grid upgrading, let alone adding capacity and generation, China is the clear relative winner in this equation, with unrivalled scale and generation in power and a domestic chip buildout that continues to improve. As Mark Zuckerberg, among many others, has recently noted: power, not compute, is the key bottleneck for the AI race. If Jensen Huang is correct and China is "nanoseconds" behind the US in the wider race, then they are hours ahead in the race to power the future. [The comparative numbers are damning:](#)

- China currently adds more wind and solar capacity each year than Europe and the US combined
- China's clean energy production has tripled since 2019
- China's installed power capacity is now higher than Europe/US combined — around 3000 GW
- China's average grid equipment age is under 15 years, with Europe/US closer to 40

With the country forecast to spend nearly \$800bn on expanding and upgrading its grid, we were fortunate to have breakfast with a current procurement head at the state grid. His observations are worth highlighting:

- Hydro plants are a Beijing priority given their ability to offer a more stable supply of power
- Coal demand will continue to grow in absolute terms but will be a smaller part of total production long term. Like hydro, its ability to deliver consistent power is important
- The state is happy to pay premiums for energy and lose money on the sector to reach clean-energy goals
- Nuclear is a priority in the near term given AI demand
- By 2045, it is considered "highly probable" that China's power generation will be 50% renewable
- Most high-end components for the grid are still sourced from Europe

Already facing huge costs to re-shore and re-industrialise, Europe and the US will also have to spend substantial resources trying to modernise and add capacity to their grids. In effect, they are launching another industrial revolution to bring their power generation to parity with China. Not only does China have vastly superior installed generation – and thus lower energy costs – but it has also established several strategic choke points across the green-energy value chain. From energy storage and battery technology to 60%+ share of manufacturing in solar and wind, and tight control of critical minerals and rare-earth processing – **the energy advantage will endure.**

A Hybrid Growth Model

US vs. China- Different Ways to Win

As with everything involved in China, the power, size and centrality of the state is both its biggest advantage and weakness. Having a centralised system of one-party rule has allowed for genuine long term strategic thinking that has clearly offered it a structural advantage to western democracies when it comes to formulating effective industrial policy. More specifically, **the persistency and predictability of this policy is critical in allowing companies to focus on product and innovation first, and profits second in capital intensive industries.** Unsurprisingly, liberal democracies with set term limits and large welfare states, cannot hope to compete on this front. And with western governments trending increasingly towards reactionary, often single-policy populist parties, bi-partisan, long term national strategy remains a faint prospect.

The corollary of such a system's strengths is its rigidity; a tendency to rely on prescribed approaches and conformity and avoid the irrational. Where American risk capital sees opportunity, Beijing can often see waste; permanent loss of capital has more consequences for the state than private investors. That is not to say there is not wastage, as we will explore later, it is a key part of the model. The model is also seen as predative to the global economy given the level of state subsidy and influence. The combination of a limited regulatory system, fears on rule of law and lack of transparency often leave Chinese firms unable to utilize international firms as partners. In contrast, the United States' unrivalled network of allies, strong rule of law, and commitment to free trade allow its domestic champions to access the best suppliers the world has to offer. While not being a US firm, ASML is testament to the power of the partnership approach. The company continues to enjoy a total monopoly on manufacturing EUV lithography machines, but it is the collective work of nearly 100,000 components sourced from over 5000 suppliers, that has built that advantage. While Trump 2.0 has undoubtedly eroded that network, China's network of allies via the BRICs are more likely a drag on its growth than multiplier.

Despite core differences, both systems have created a multitude of winners across industries, but their final forms are different. The US approach remains wasteful far beyond the generative AI slop we covered above – crypto, NFTs, Web 3.0 and the Metaverse – all subsumed hundreds of billions of capital and have become speculative assets at best– at worst they are nearly all zeroes in the economic ledger. Despite this, the equation of (insatiable appetite for risk)*(lower cost of capital)* (vast risk capital network) – has done, and in my view will continue to deliver significant breakthroughs at the frontier of technology, AI, biotech, space and quantum computing. One must chart the journey that Nvidia has undertaken, from crypto, car sensors via video gaming, enroute to being the dominant AI company globally, to see that the market mechanism can help drive these outcomes. The Belfer Centre at Harvard, who track innovation in key sectors would largely agree. To use the cruder metric of market capitalisations as a measure, the results are clear:

- Nvidia alone is nearly \$800bn larger than the top 10 largest listed Chinese companies across all sectors combined.

- Tencent remains the only Chinese firm represented in the world's largest 20, with over 15 being American.
- Tencent, the largest Chinese company by market cap, made less revenue in 2024 (\$90bn) than Alphabet recorded in net income (\$100bn).

State Capitalism: China's New Approach

"Not very good at 0-1, but exceptional at 1-100." Frank Ding, CIO, FountainCap, discussing Chinese innovation

The idea that Xi's 'Made in China 2025' policy, first unveiled in 2015, has been the deciding factor in bringing China to where it is today feels misguided. As [Dan Wang argued recently in Foreign Affairs](#), China's current technological dominance is built on deep foundations across key areas:



Physical Infrastructure

Unprecedented build out of highways, airports, HSR networks and ports over 30 years. Shanghai port moves more cargo than all US ports combined.



Digital Infrastructure

Rapid connectivity combined with Alibaba/Tencent dominance helped create a mobile-first country and global telecoms leaders like Huawei.



Electrification

China is now the world leader in renewable manufacturing and generation. It generates more electricity annually than the US and Europe combined.



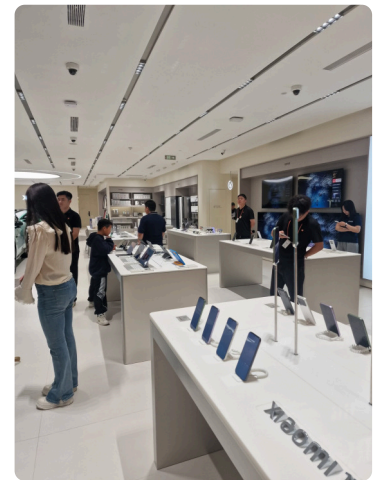
Labour and Talent

An industrial workforce of over 70 million armed with process knowledge combined with [50,000 STEM PhDs annually](#), growing at double digits.

In my view, these were advantages built in the 'Brute Force' era of growth. Brute force is originally a machine learning term, but I think the concept projects well onto the type of growth that China experienced under Deng Xiaoping. In layman terms, it is a training approach for computers/models that relies on them using brute computing power to exhaustively model all possible outcomes, versus using domain-specific insight. In short, it will overwhelm its opponent, as [IBM's chess computer Deep Blue did to Gary Kasparov in 1997](#), by sheer brute compute power. It is resource-heavy, inelegant and very linear but the results can be excellent in the correct conditions. In 1978, Deng faced the daunting issue of trying to bring 800 million people out of poverty – a colossal, but linear problem. A 'brute force' approach of rapid de-collectivization, urbanisation and development of a market economy proved exceptionally powerful at delivering that outcome. But that model was predicated on a 'growth at all costs' system which will likely not serve a more mature Chinese economy as well. Most notably, it created perverse incentives at a local government level.

When concern is entirely focused on topline GDP growth, volume and activity take precedence over ROI. In a rapidly developing economy, that lends itself well to real estate, infrastructure and land sales. But as China's growth has slowed and the economy matures, one can see the wastage of such an approach from any train window: apartments and bridges to nowhere stand as Ozymandias-esque tributes to a looser era.

While the Chinese growth model remains focused on speed and scale, [Xi has outlined the need for "high quality development"](#), most recently in his New Year address. This has translated to a more targeted approach from the state, with a key focus on innovation-driven growth that is more sustainable. Where China had previously relied on its vast population and the accompanying labour benefits to outcompete on cost and volume, we now see a hybrid top-down/bottom-up model that creates state-selected and subsidised sectors that companies can 'play in' with limited government intervention beyond financial support. Given the limited number of these, both competition and capital are plentiful, and acceleration of progress can be astonishing. The combination of the state's fiscal 'bazooka', decades of manufacturing process knowledge and a substantial (and growing thanks to Trump) supply of engineering talent, is allowing this model to Hoover up the global value chain. See anything from low-orbit satellites, green technology through to EVs and battery technology. These are areas where China has successfully moved from 0-1, and then to 100, in rapid succession. **The imitator is increasingly becoming the innovator.**



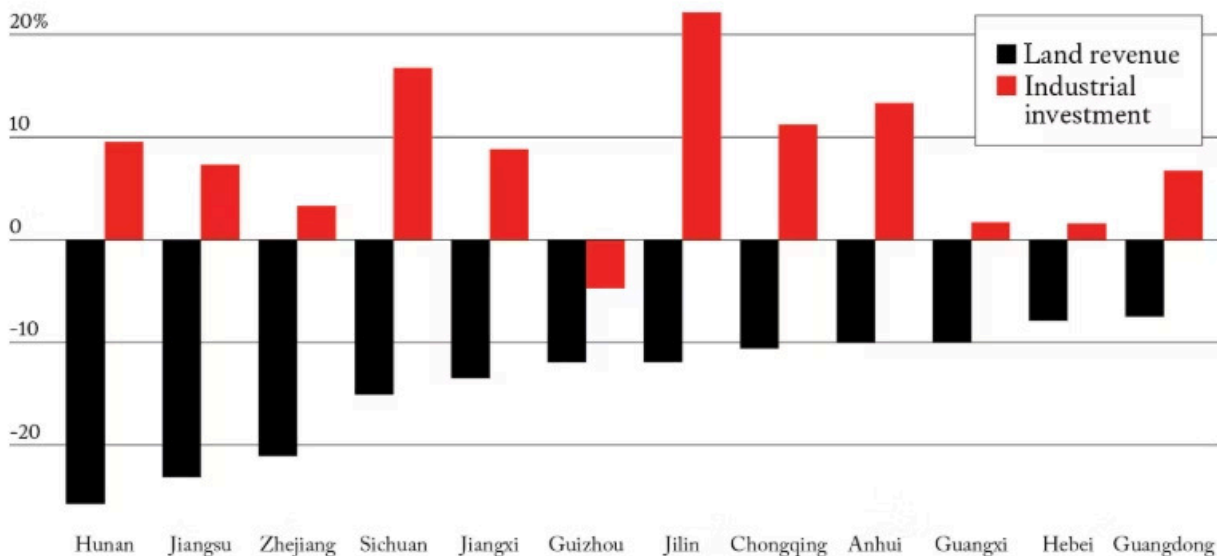
China has moved from 'imitator' to 'innovator' across EVs (Xiaomi), green technology (Sungrow) and mobile (Huawei, Xiaomi)

February's tech symposium, where president Xi met with leading technology entrepreneurs offers us a clear example of this approach of top-down selection and funding combined with bottom-up innovation from the private sector. In a country where the [placement of a teacup](#) can offer insights into the black box of Beijing politics, the symposium was a relative feast of metaphor. While the public resurrection of Jack Ma grabbed headlines, a new look front row underlined both the new growth model, and its key beneficiaries. Huawei Founder, Ren Zhengfei, was predictably front and centre with representation from other big beasts in BYD, CATL and Tencent. [The inclusion of relative minnows in the Founders/CEOs of AI leader DeepSeek, CEO of robotics player Unitree and the Chairman of Will Semiconductor](#) was further evidence of which sectors Beijing views as integral to its future growth.

If these new players can be considered 'hard tech', then the absence of 'soft tech', consumer focused companies, was glaring. No representation for Baidu, Bytedance or Jd.com, and with Meituan Founder Wang Xing in the back row, consumer tech feels outside the sandbox for the time being.

REVENUE REPLACEMENT

Industrial investment in Chinese provinces where land revenues fell the most from 2023 to 2024



Sources: Author's calculations; National Bureau of Statistics of China. Research assistance by Shengyu Wang.

Local Governments have Adapted: [With Land Revenue plummeting, Local Governments have pursued industrial investment inline with Beijing's wishes to focus on 'quality growth' over reliance on land sales.](#)

So, what does this approach mean for investors?

- **The private sector is back in Beijing's favour after crackdowns and zero covid dented confidence.** Gone are references to 'common prosperity' with focus back on AI and future growth sectors.
- Expect rapid and world-leading innovation to emerge in strategic sectors– AI, Biotech, Green Tech and Quantum among others.
- Technology companies can still succeed, but they must align with Beijing's aims. Hard Tech > Soft Tech. Industrial Integration > Consumer-Focused.
- **Higher quality and more sustainable growth at local government level** should dampen volatility and prolong China growth cycles
- Broader opportunities for equity investors as system creates multiple winners on shorter timelines

Wastage

There is also wastage in the China approach. Recent 'anti-involution' legislation in the EV sector suggests that Beijing sees this as a temporary issue, but looking across sectors quickly shows this is a feature and not a bug of the top down/bottom-up model. Contrary to popular belief, overcapacity within these strategic sectors is largely created by intense competition rather than subsidies or weak domestic consumption – reasons that are typically associated with the China model. As [Lizzi Lee has pointed out](#), solar subsidies were phased out in 2021 and direct purchase EV subsidies for consumers have also disappeared and yet supply has continued to outstrip demand (which is still high in the case of domestic EVs). We can draw two key points from this element of China's growth model:

- **Feature not a Bug** The favoured sector model will incentivise scale, speed and aggressive pricing, which will continue to create excess supply. **If this is the price of entry for building and sustaining technological dominance, then Beijing is likely to continue paying it.**

- **Quality and Brand as Protection** Investors can mitigate this by looking to higher quality companies that retain brand power. Xiaomi, despite producing 30k cars a month, has some of the highest auto margins globally, in arguably the most competitive domestic sector. Its wider ecosystem has helped it build genuine brand equity with consumers.

Pop Mart and The Troubles of Youth

A company I was excited to visit, less on the product, but more around the idea of understanding the phenomenon, was Pop Mart, the makers of the global hit Labubu toys. It turns out that yes, the European mind truly cannot comprehend. After speaking with management, we were treated to a trip around 'PopWorld', the growing theme park attached to company headquarters. Beyond the oddity of visiting a theme park in loafers, blazer and pleated trousers, I was struck by how much I didn't stand out, age-wise. There were of course the punters one would expect, young children dragging tired parents around the store, but it was hard to ignore the prevalence of 18–30-year-olds feverishly buying the dolls on a Monday afternoon.

This observation goes beyond the anecdotal, what Frank Ding has described bluntly as the "useless economy" ("cute economy" in other outlets) is now booming. The basic driving force is that the pressures of modern society, compounded undoubtedly by social media, is driving feelings of hopelessness where youth buying power shrinks in a world of fewer opportunities. In his influential 1991 book, *America vs. America*, Chinese diplomat Wang Huning argues that an America about to enter arguably its most dominant decade, was facing a number of threats to its position, and while he was comically wrong about Japan (a lost decade rapidly followed publication), his commentary on a simmering youth crisis, driven by a sense of nihilism, carries some parallels for his country's youth today.

The most straightforward explanation of this is very high youth unemployment. The government's recent decision to no longer disclose the figures is as much confirmation as one needs to see it is an issue. Conservative estimates pin it anywhere from 15 to 25%, with others arguing it could be as high as 40%. Regardless of the exact number, those lucky enough to find solid employment will likely face a punishing '996' working environment; 9am–9pm 6 days a week. The knock-on effects of this squeeze are that younger people are not marrying, not having kids or even buying houses. So, what are they doing with their money? Well, PopMart has been one key beneficiary of this, but other categories be that pets of broader experiences– be that music, film or cultural – have all grown dramatically in China. The concept of 'lying flat', which is effectively 'quiet quitting', have exploded in recent years, largely driven by the reinforcing feedback loops of social media giants Douyin (TikTok) and Little Red Book (Instagram).

The wider societal implications of this are hard to predict in the long term, but it feels likely to have staying power as an economic force in the short term. That ought to be comfort to Pop Mart shareholders, but I remain skeptical towards the persistence of the business model. Anyone born in the 1990's will have strong memories of Beanie Baby mania among countless other fads. A few counterpoints from management:

- **Platform Model** A misconception that I had was that 'Labubu' was the product – but this is only a specific IP. Pop Mart run a platform model that allows them to roll out multiple characters and versions simultaneously and spread their bets more effectively. As the huge success of the Labubu Monsters line proved, power laws dominate, and a mega hit can more than cover any failures.
- **IP Discovery** Pop Mart itself does not design products. All IP is sourced externally via the Pop Mart website. The Labubu hit was the work of a Dutch artist, and their pipeline of potential design is almost endless given this success. Couple this with a favourable economic model whereby Pop Mart will eventually own the IP when their revenue share with artists expires after typically 3 years, and things start to look more sustainable.
- **Partnerships** PopMart, unlike beanie babies, has already proven it can partner with large global franchises. Star Wars, Marvel and other Disney properties have launched their versions successfully and there will be more to come.



Coming back to America vs. America, I thought one of the more prescient observations from Huning was that the American system and cultural dominance is self-reinforcing; the young generation must be "baptized with the American spirit. This is the first purpose of education; all other purposes are secondary." If we are to look to China today, nearly all conversation is focused on how China might shape the world. **The more prescient observation might be to look inward and consider the second and third order effects of a young generation that has lost their belief in the ability of the Chinese system to deliver them stability and prosperity.**

Upgrading Consumption

Labubu's and the cute economy are only half the story of China's changing consumption habits. There tends to be, as with everything China investing, a misplaced obsession with the headline numbers. Consumer spending YOY has grown moderately in China, following GDP at around 4.5%. The headline figure tells us next to nothing about how Chinese consumption is shifting.

To be reductive; Chinese consumers have become far more discerning, both of value and of brand. We spent time visiting a mall in Hefei with the general manager. This covered everything from EVs, to domestic apparel makers through high-end luxury brands like LVMH and Prada. Some observations that reflect this shift:

- Salomon, Descente and Pop Mart all rapidly growing sales
- On Running and Salomon outlets were growing at 30% YoY, while sportswear and trainer rival Nike was down 30% YoY
- Hoka also saw a 14% growth in store sales
- Zara sales down 5% YoY while low-cost Chinese player, Urban Revival is taking share.
- Luxury retailers largely stable in YoY sales

Value > Price

Chinese shoppers are now concerned on the value they gain from products versus a simple price war. Quality of Hoka over Nike a strong example. Similar for Zara where domestic low-cost options have improved quality while still competing on price.

Heritage = Moat

Chinese brands cannot replicate heritage and prestige. Increasingly feels like the only moat as quality improves for local brands.

Death of the Middle

Western brands are caught in a conundrum. The middle is a death zone in China where brands are required to compete on price or offer status to consumers via heritage. Competing on price is a non-starter in China, and heritage cannot be manufactured so anyone outside these brackets has and will continue to struggle.

Convergence

Niall Ferguson recently wrote a predictably provocative essay for The Free Press titled '[We are All Soviets Now](#)'. The basic thrust of his argument being that Trump 2.0 has the US looking and behaving like its old Soviet rival. That seems like the correct observation but wrong country. Clearly, the globalized world is fracturing, separating into competing centers of power in Beijing and Washington – but the growth and innovation models that are used to create and sustain that dominance – are converging. Once you see it clearly, you see it everywhere:



Top Down Industrial Policy

Trump administration recently announced Genesis Mission, a blueprint for sovereign AI leveraging federal data, is targeting near identical strategic sectors as Xi's flagship 'Made in China 2025' plan did back in 2015. This was also true under the Biden administration with the CHIPS and Science Act providing \$50bn of directed subsidies to semiconductors and high-tech sectors. National Security Advisor Jake Sullivan's speech at the Brookings Institute in April 2023 lays out a government approach to industry remarkably similar to China's.



State Capitalism

The US state is now playing a stronger role in markets, with recent direct investments being made into Intel and MP Materials in attempts to 'domesticate' its supply chains in sensitive sectors. Both are subject to unique shareholder arrangements; not too dissimilar from the CCPs 'Golden Shares' arrangement.



Weaponizing Trade

The economic toolkits being deployed to protect their respective advantages, rare earths for China and high-end GPUs for the US, are also mirrored on a tit for tat basis.



Supply Chain Localization

China has spent a decade 'domesticating' and integrating strategic sectors. The US is following suit with its MP Materials deal and deal to bring TSMC fabs to Arizona.



Court Politics

Even if we ignore the lack of ideological similarity, there are passing similarities between the Trump administrations court politics, where loyalty and purges move hand in hand, and those of the Xi Politburo.

Trump's campaign trail promises of bite towards China look more like a whimper; **the age of 'American capitalism with Chinese characteristics' may well be here.**

Conclusion

"Even a dragon finds it difficult to conquer a snake." – Chinese Proverb

To return to the China investment case as we conclude. As Jeff Bezos has long argued, people should think about what *doesn't* change. In a world that continues to become more complex and dynamic, there is more alpha in betting on *what won't* change. Applying that lens to China and I am struck by issues and misconceptions that will persist in the coming years:

Index and GDP are not representative

A common concern in Chinese equity investing is that GDP growth is the be-all and end-all driving any growth in the underlying equity market. In a bloated and SOE-heavy index, yes, there will be more correlation. But the majority of active managers in China have continued to massively outperform the index over cycles.

Headlines vs. Reality

If all successful investing is the gap between expectation and reality, then China is the leading example. Despite the size and prominence of modern-day China, it is still a market where inefficiency and asymmetries are more norm than exception.

'Active' Active Management

As an extension on the above, investors will be far better served working with 'active', active managers. That is, active managers willing to get on the road and track down mispricing's in-person to drive outperformance. If people take anything from this report it is that China is in a near constant state of flux. The Buffett approach of removing oneself from the noise does not apply in a country with single provinces larger than the United States.

Full US/ China Decoupling is Impossible

Globalisation created unprecedented prosperity and growth on both sides of the world, inextricably linking the two largest beneficiaries– China and the US. We cannot fully unravel the interdependent web that was spun – and why would either side? Beneath the rhetoric and strategic sectors, there remains a plethora of sectors/companies that are not sensitive to either side and remain positive-sum trade arrangements.

The Future Will Not Be Evenly Distributed

Back in a more 'normalised' China environment and dispersion has returned. The internet bucket that dominated for so long is now seeing meaningful separation between 'winners' and 'losers' as we see 'new economy' firms outperforming 'old economy' sectors like property and heavy industry

"Software is eating the world"

– Marc Andreessen, 2011

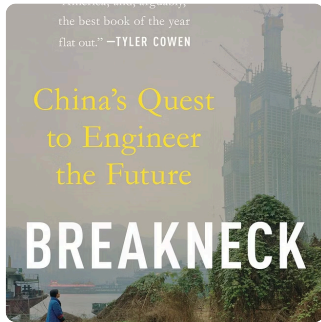
Marc Andreessen's seminal essay in 2011 posited that software would inevitably take over value chains and sectors globally as companies adapted to a digital economy. It is hard to argue that he has been wrong with the likes of Uber and Netflix so ubiquitous in daily life, but the future looks far more like a blend of analogue and digital, old economy powering new. Beyond AI – advanced manufacturing, industrialisation and re-shoring have become the words most associated with economic dynamism and growth. China in 2025 is able to build faster, cheaper and, increasingly, better than any country, and that lead is only growing. As Dan Wang and Arthur Kroeber note, **"China's industrial and technological strength is now a permanent feature of the world economy."** Combine that edge with a long term and well-funded industrial strategy and it feels hard to argue against the idea that **'Chinese manufacturing is eating the world.'**

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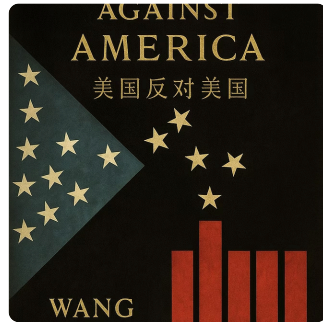
Further Reading

Explore these insightful books for a deeper understanding of China, its economy, technology, and geopolitical dynamics.



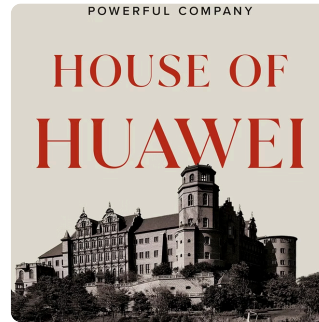
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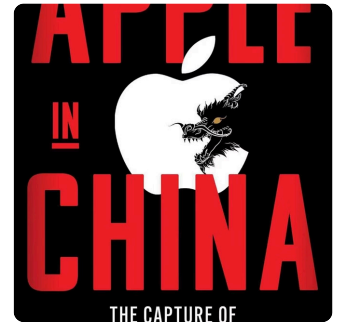
America Against America

By Wang Huning (1991)



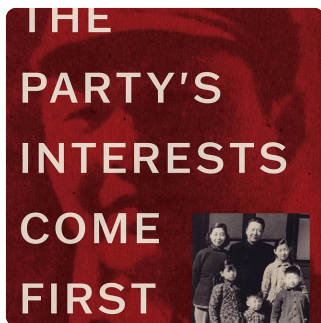
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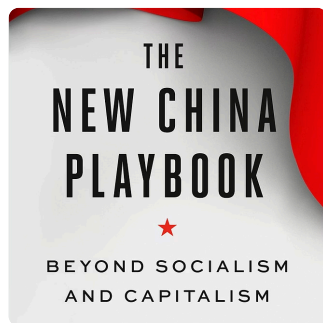
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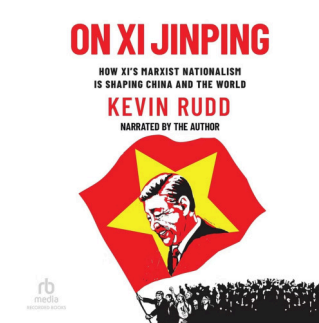
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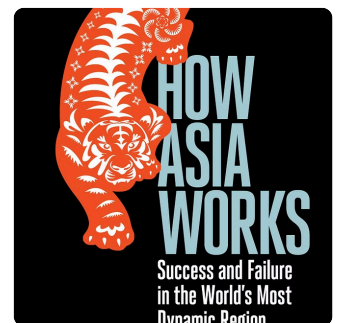
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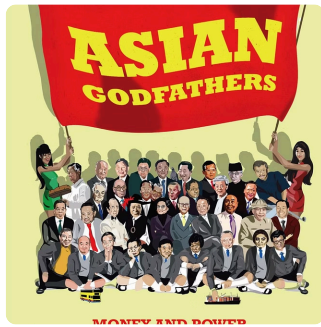
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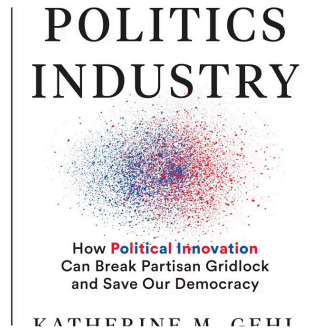
How Asia Works: Success and Failure in the World's Most Dynamic Region

By Joe Studwell (2018)



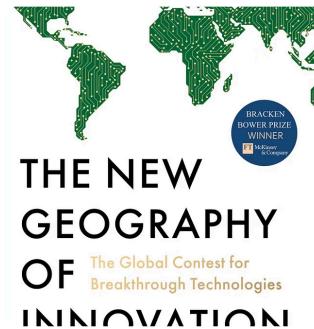
Asian Godfathers: Money and Power in hong kong and southeast asia

By Joe Studwell (2007)



The Politics of Innovation: Why Some Countries Are Better Than Others at Science & Technology

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The New Geography of Innovation: The global contest for breakthrough technologies

By Mehran Gul (2024)



AI Superpowers: China, Silicon Valley, and the New World Order

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