Danske Bank

16 April 2025

Postcard from China

10 key takeaways from trip to China

On Sunday I came back from a week-long visit to China. And what a week it was. As the days passed, tariffs went higher and higher, stock markets tanked, recovered, then dropped and then recovered again. Not totally surprising, Trump blinked and hit the pause button on tariffs on all countries except China, but even by Friday he had exempted semiconductors and electronics in a sign he had overplayed his cards. As probably the only country, China has not called Trump asking for trade talks, and this came as no surprise to most people I talked to.

Meetings were with a mix of analysts, company managers, supply chain consultants, investors and old friends that have lived there for a long time. Apart from gauging the temperature on the trade war front, I was there to get a sense of sentiment on a range of issues, such as housing, China's tech advances and what people thought about the recent efforts to boost consumption. The trip took me to Beijing, Shanghai as well as Suzhou, another major city around 90km West of Shanghai. Below I have highlighted 10 key takeaways from my discussions in close to 20 meetings and presentations.

#1: China prepared to fight

As should be clear by now, China is prepared for a fight and not in a rush to enter talks. This was the clear verdict from not least the Chinese analysts and economists I spoke to. China has a saying that the one who ties the knot should be the one who initiates untying it. Thus, they believe the ball is in the US court, so China has not been eager to call Trump as many countries seems to have done. The sense in China, is that Trump is overplaying his hand and underestimates the opponent he is facing. Chinese people fully support its' government in hitting back hard, even if it has a short-term cost.

From the point of view in China, Trump is hurting the US as much as he is hurting China and unless the tariffs on both sides come down soon, Trump will face a tough time going into mid-term elections where the campaign is little more than a year away. US farmers will hurt, a recession is looming, and prices are set to go up. Not a recipe for a great success for a president that promised to make America great again and said he would lower prices.

A thing you hear again and again is that the trade war is really about US containment of China. And that a divorce will happen sooner or later. The trade war is speeding it up, but we are moving in that direction anyway no matter what China does. Chinese companies already look for other markets and will continue to do so in the future. China believes it can manage without the US in the long run because it has a major manufacturing supply

10 key takeaways

#1: China prepared to fight

#2: Stronger self-confidence

#3: Highly disruptive effects short term

#4: Stronger stimulus, but no devaluation

#5: No consumer boycott, and Elon Musk still a hero

#6: Apple and Tesla last in line to be hit(?)

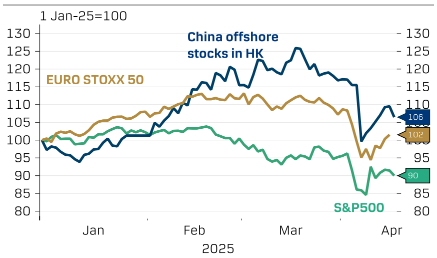
#7: European companies see both risks and opportunities

#8: Housing confidence improved, but problem not solved

#9: China's fast tech development to continue

#10: Lifting consumption is a major task

Chinese offshore stocks taken big hit but still up this year



Source: Macrobond Financial, Bloomberg, Danske Bank
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chain and is building strength in tech. The question, it goes, is how well the US can manage without China as it cannot replace Chinese manufacturing capabilities?

I didn't hear anyone expect China to sell US Treasuries, a topic that has come up a lot lately. It is simply deemed to risky, and China also needs USD assets in their currency reserves.

#2: Stronger self-confidence

Compared to my previous China visit 1½ years ago, it was clear that China had become more self-confident. The 'DeepSeek moment' was highlighted by everyone as a key milestone giving Chinese people, a stronger sense that China was on track to become more self-reliant and could not be held back by the US. One person told me his 80-year old mother-in-law, who knew nothing about tech, had even asked him about DeepSeek. On top of DeepSeek other tech breakthroughs have strengthened national pride, such as the 'KungFu humanoid robot' by Unitree Robotics, the AI agent Manus and BYD's 5-minute battery charging, all coming within just 2-3 months. As a tech analyst told me, after many years of strong tech focus, China finally had something to show for it, and she expected we would see more of this (more on tech below).

An interesting view in China, is also that China might *gain* in the long term from the short-term pain because it forces China to focus even more on doing its' own home work: take stronger measures to make market reforms, push even harder to support private consumption and do even more to unite forces to boost Chinese technology level.

Another long-term gain from Trump's new super charged America First policy is China gaining influence on the global chess board. With the US proving to be an unreliable partner, other countries will lean more to China for trade and investments. When the US looks bad, China looks better on a relative basis and can brand itself as the reliable partner.

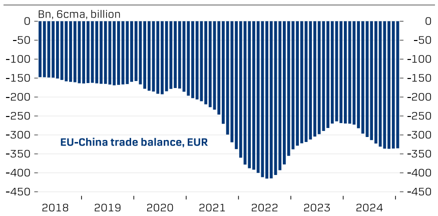
However, many also highlighted, that there will be a counter pull to this development, as the US will put pressure on countries, including EU and Southeast Asia, to put up more barriers against China and invest more in their defence to take a stronger role in deterring China militarily. At the same time, they can also put counterpressure on the US by engaging more with China. So, it is an interesting geopolitical dance that is set to unfold for countries squeezed between the US and China.

Along the same lines, I had many discussions on whether we could see a reset of EU-China relations. The feeling is that there is a new window of opportunity, and we do indeed see a softening of the tone from both sides. While I was there, China's premier Li Qiang and EU President Ursula von der Leyen talked on the phone. The tone has visibly softened but of course there has to be actual improvement when it comes to dealing with the bilateral trade challenges (Chinese readout from meeting *here*). Top EU officials will also go to China for an EU-China summit in July to *meet* Chinese leaders. In the short term, EU is concerned of being flooded with cheap Chinese goods amid a closing US market. But in the medium term, challenges also relate to more Chinese companies going global supported by subsidies at home. And whether the US would punish EU for engaging with China.

China less reliant on US market now

Source: Macrobond Financial, NBS, Danske Bank

EU-China trade deficit a key challenge in repairing relations with EU

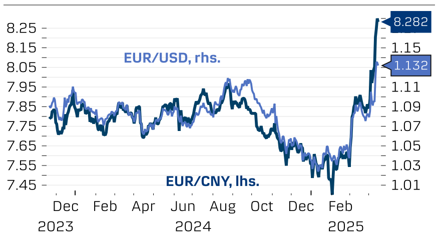


Source: Macrobond Financial, NBS, Danske Bank

Chinese overcapacity has led to falling export prices, a concern in Europe

Source: Macrobond Financial, NBS, Danske Bank

Weaker CNY against USD has led to strong depreciation vs EUR. Devaluation would be a red flag in EU



Source: Macrobond Financial, Bloomberg, Danske Bank

#3: Highly disruptive trade effects short term

The continued climb up the tariff ladder to above 100% between US and China means trade will more or less stop except in the areas where Trump made exemptions (electronics and semiconductors). Some companies I met had already seen cancellation of orders, and that was even before the latest tariff increases. US importers are expected to halt imports where possible as tariffs should eventually come down during talks. That could lead to empty shelves of some products in the US when inventories are empty (the joke is about the US not getting any Christmas *decorations* this year as more than 80% is imported from China). Once trade opens up again when tariffs are assumed to move lower, we could see a whiplash effect to fill up inventories again of many goods, which for a while could suddenly drive very high demand for container transport between US and China. Bottom line is, we will have major distortions in the data over the coming quarters and it will be hard to gauge the underlying development through this fog of volatile data.

#4: More stimulus, but no devaluation

Everyone expects China to expand stimulus further this year as already signalled by the government. China will still do go after hitting the 5% growth target, even though there is acknowledgement it will be very diffucult. The sense is China still has plenty of ammunition and can expand many of the current tools already used (like the trade-in program for consumption where more goods can be included and subsidies increased). Monetary policy is also likely be eased soon. However, no one I talked to expected a devaluation. While in Beijing, I was interviewed by Bloomberg on the issue and wrote a bit on the reasons in this *linked-in post*. But the bottom line is, it would likely do more damage than gain and China wants to be seen as an anchor of stability in a world in chaos, not adding to instability.

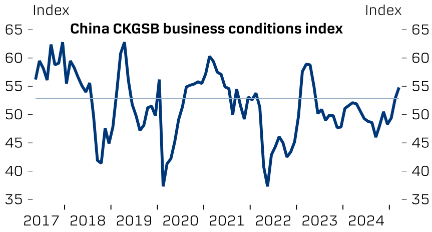
#5: No consumer boycott, and Elon Musk still a hero

I asked many Chinese about the scope for a boycott of US goods but no one saw that coming. It surprised me a bit given that China is being hit with of tariffs and other types of tech sanctions. But most Chinese people are actually not angry. They understand why the US wants to strengthen their economy. But they are bewildered over the strategy.

#6: Apple and Tesla last in line to be hit(?)

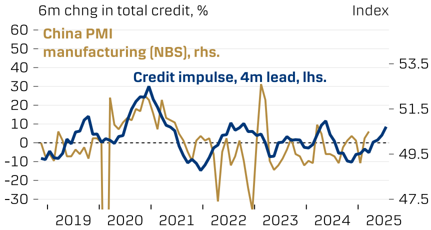
In the increasingly fierce trade war, it has been mentioned that companies like Apple and Tesla could be in line for a big hit if the Chinese government goes after them. However, sentiment is they are likely to be last in line. China needs innovative foreign companies and don't want to scare them away. In areas where China sees a benefit of having foreign companies, they are unlikely to hurt them. Apple employs thousands of Chinese workers as does Tesla and they provide competition for Chinese companies and strengthen a highly innovative environment. A big fall in foreign investments into China has been a big concern I was told, which is also why there has been a big charm offensive towards big multinationals strong in the tech area. The companies that are in line to be hit could be consumer products with little tech in it (Nike?) and easy to substitute by domestic players without losing any innovative force. Boeing is also a target because China can choose Airbus instead (in fact China just told its airlines to *halt* Boeing jet deliveries).

Chinese business conditions in Q1 were highest since covid re-opening



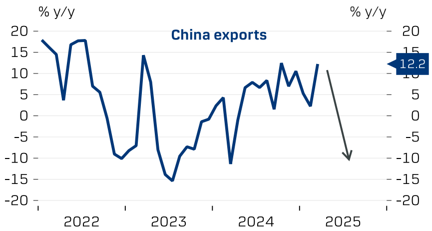
Source: Macrobond Financial, CKGSB, Danske Bank

Rising credit impulse show stimulus gaining strength in Q1



Source: Macrobond Financial, NBS, Danske Bank

Exports to take a hit after two strong quarters

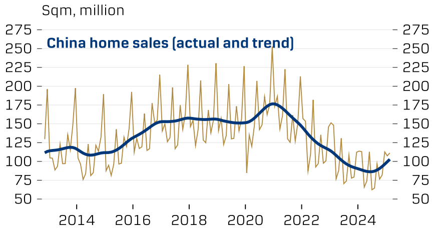


Source: Macrobond Financial, NBS, Danske Bank

#7: European companies sees both risks and opportunities

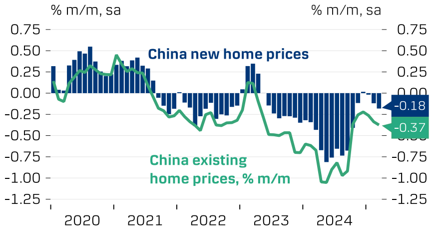
In my talks with European companies both risks and opportunities were mentioned. There is an obvious concern about the short-term decline in activity and cancellation of orders due to the trade war and possibly global recession. There is going to be a lot of focus on optimising supply chains and work is ongoing to reroute where possible as we go along with changes in tariffs. But longer-term supply chain considerations are put on the sideline until there is more clarity on where tariffs will end; both on China and other countries. Some also mentioned there could be medium term opportunities as China would be more inclined to choose European suppliers over US ones. Interestingly, a sentiment poll in Q1 of Danish businesses in China also showed the highest sentiment in five years so there seemed to be more optimism coming back about the Chinese market after some tough years with covid lockdowns and deep housing crisis.

Home sales better in Q1…



Source: Macrobond Financial, NBS, Danske Bank

… but home price declines increased in March when adjusted for seasonality



Source: Macrobond Financial, NBS, Danske Bank

#8: Housing confidence improved but problem not solved

Overall confidence about the economy had improved when it came to housing compared to my last visit in 2023. Not that it is booming in any way but many mentioned signs of stability in not least the big cities. One girl in Shanghai mentioned she was eager to buy a new home now as land prices were starting to rise and she wanted to buy before apartment prices increased. She also highlighted that she liked to put her savings in a real asset like a home instead of the equity market, which surprised me a bit as I thought the recent three years of housing crisis had changed that preference. But it seems to be deeply ingrained. It also suggests that there is indeed some pent-up demand with many home buyers are sitting on the fence but ready to buy when there is stabilisation in the market.

There are still many challenges in the housing market, though, and especially in lower-tier cities sentiment is still bad and a lot of empty housing continues to be a big drag. House prices for March released this morning also showed a new decline when adjusted for seasonality. There is generally a need for the central government to step up measures to buy up vacant housing and speed up urbanization through Hukou reform that could improve rights of the 300 million migrant workers in China working in the cities. Beijing acknowledges this but there is scepticism they will do enough to also improve incentives for local governments to actually implement the reform, because it is costly as it raises social costs. Beijing needs to provide more financing for this to succeed.

#9: China's fast tech development to continue

The first thing that comes up talking about tech is the 'Deep Seek moment', which as mentioned above has given a big moral boost. But other tech breakthroughs were also highlighted in a discussion I had with a tech analyst. She highlighted China is very good at adapting new technologies as people are curious about using technology and take it in quick. Companies would likely be quick to implement AI in their production optimisation and improving their edge here. On top of implementing more robotics. Some factories in China are *already 'dark'* because robots do all the work. That is clearly not in all places but the pace is fast towards improvement of production processes.

Focus is not only on catching up to the best technology. It is also to get the most out of the technology already at hand and adopt a *'good-enough' approach*. In many areas you don't need the most advanced technology and here China can instead aim to leverage its' benefits of scale and speed. Within microchips China is still seen as being a decade behind (maybe more) simply because the whole supply chain ecosystem is incredibly vast and complicated. There are occasional stories of break-throughs, but it remains to be seen how big they are.

Another focus is to leap frog in new areas and create the technologies of the future. China has not had much success in the past of this kind of 'original innovation', also called 0-1 innovation, but instead been good at 1-n innovation through improving production processes. A big government focus is now supporting start-ups focusing on *future technologies*, or 'new quality productive forces'. China already lead in research of many of these areas and more money is directed towards AI and other tech industries to get research translated into actual commercial breakthroughs. A new state AI fund of USD8.2 bn is set to direct money to strengthen the domestic AI ecosystem and reduce reliance of US semiconductor companies like Nvidia. If China can get more breakthroughs like DeepSeek, it might get ahead in AI even without the most advanced microchips assuming it can better optimise the way the models are developed.

Within some manufacturing areas, China still lacks innovation power according to some businesspeople, I talked to. They were not worried about Chinese competition because they stayed one step ahead in terms of innovating their products and China could only catch up to the latest technology. So, if you keep your latest innovative edge outside China, you are not at risk of losing to Chinese companies. Chinese workers are efficient at producing at scale and following a specific process and manual. But in some areas, they don't have an innovative and creative mindset. This explains why they were never able to compete in cars with combustion engines and has struggled to develop own airplanes. At the same time in other areas, we do see China moving to the product frontier. That has been the case in EVs, 5G, drones etc. But less so in 'old industries'.

#10: Lifting private consumption is a major task

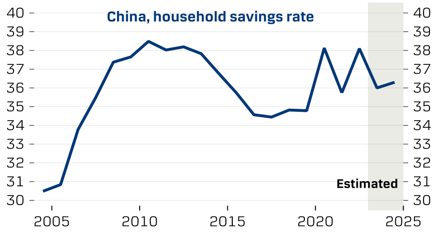
China's strengthened focus on boosting private consumption also came up and I gave three presentations in different fora on this topic. China has highlighted the need for more consumption driven growth for more than a decade so you could wonder why we should take it serious now? When I asked a chief economist from a big Chinese investment bank this question, his reply came promptly "*because it is urgent now*". His point was, **that it had never really been urgent before because China could grow through investments and exports. But that is no longer the case.** China *needs* more growth from private consumption now, also to create more balance with key trade partners like the EU. China will face more barriers to other markets if the companies go global without China offering a stronger consumer market in return. China also needs stronger consumption to fight deflationary pressures. So, it has never really been as urgent as it is now.

My own take is that China will struggle to be more consumer driven in the short term given the headwinds from the trade war that leads to job cuts and uncertainty. The housing market is also still a drag. Hence, a big decline in GDP growth in the short term seems unavoidable. But **in the long term, I believe China has a decent potential to shift to more consumer growth as the savings rate is very high** and China is taking stronger steps to widen social security. A weak social safety net is a key reason for high savings. The shift will in my view be very gradual, though, due to continued geopolitical uncertainty and a slow housing recovery so I wouldn't expect a major change over the next 1-2 years.

Retail sales picked up in Q1 following consumer stimulus

Source: Macrobond Financial, NBS, Danske Bank

High Chinese savings rate also leaves potential for future consumption growth if China can resume falling trend from 2012-2017



Source: Macrobond Financial, NBS, Danske Bank

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