For professional investors in Italy

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The new Chinese paradigm between contradictions, transformations and opportunities

Carlo Gioja, Portfolio Manager and Head of Asia Business Development, Plenisfer Investments SGR

When the first six months of 2025 are behind us it is the time for mid-year balance sheet, including those on China. In the first half of the year, China's **GDP grew by 5.3%[1]** compared to the same period in 2024, which is in line with the government's target. At the same time, the **deficit settled at 4% of GDP, the highest value in thirty years**, which seems to confirm the government's willingness to support the economic cycle with decisive industrial policies.
Beijing also announced a **record trade surplus of around USD 586 billion**[1], with exports growing by 5.8% year-on-year[1] in June and exceeding analysts' estimates. Despite tariffs currently standing at 55%[1], China's surplus with the US increased to USD 114.77 billion in the first half of the year, up from USD 98.94 billion a year earlier[1], once again surpassing market expectations. This is a clear indicator of the resilience of Chinese companies: '**decoupling**' **is a long-term process** and, in many technology sectors, global dependence on China remains structural.

In a nutshell, this is China's mid-year balance sheet. However, to understand the country's true trajectory and the extent of the ongoing evolution, it is crucial to look beyond the figures. An it is behind the numbers that a new Chinese paradigm emerges.

The new Chinese paradigm

The parable of the blind men and the elephant, in which each man touches a different part of the animal and describes it differently, has always been a fitting metaphor for China: an immense and complex country, fragmented in its perceptions and elusive to any straightforward interpretation.

Now more than ever, understanding China's transformation requires observing its **contradictions** simultaneously: the real estate sector's crisis and high-tech growth, consumption's apparent weakness and innovative business models' affirmation, geopolitical tensions and leading industrial sectors' disruptive force, local governments' fiscal crisis and innovation-driven growth ambitions.

The crisis in the **real estate** sector, which continues to be a huge drag on growth (with an estimated impact of around **-2% on GDP by 2025[1]**), dominates the macroeconomic narrative on the Country.
The sector, which still accounts for about **a quarter of the Chinese economy**, is experiencing a deep and structural contraction: investment in fixed assets is falling at a rate of more than **10%[2]** per year, with very significant effects on employment and confidence, wages and consumption. At the macro level, the long cycle of real estate restructuring and deleveraging will continue to depress indicators for several more years.

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[1] Source: Bloomberg
[2] Source: KPMG China Economic Monitor (2025)

At the same time, the crisis has led to the **redistribution of resources towards more dynamic and high value-added sectors**. For years now, an increasing share of investment has been pouring into advanced manufacturing, electric vehicles, robotics and artificial intelligence. The results are beginning to become visible: by 2025, China will account for almost t**wo-thirds of global sales of electric vehicles**, and control over **60 per cent of the world's battery production** capacity and more than **half of the installed capacity of solar panels**[3]. Moreover, according to industry estimates, China will produce more than **half of all humanoid robots** this year, maintaining world leadership in the industrial robotics market[3].

This silent **industrial revolution** often takes place far from the radar of international investors, largely focused on geopolitical narratives or macro fragilities. But talking to local operators, a more multifaceted reality emerges: compared to last year, the Covid trauma seems more distant in the collective memory, even if the outlook varies considerably across sectors.

Healthcare is another area to watch closely: China now already conducts more than a third of global oncology clinical trials and has almost equalled the US in the number of innovative new drugs in development[1]. **Artificial intelligence** is already widely adopted in most hospitals, with platforms such as DeepSeek applied to diagnostics, patient management and in some cases, clinical decision-making.

Consumption: ongoing evolution

Although still weak compared to the past, a change is also taking place on the consumption front.
The **perceived value of domestic brands is rising sharply**. Emblematic is the case of Mao Geping, a luxury cosmetics brand inspired by Chinese imperial iconography, which attracts queues in the country's most prestigious malls: beauty is reinterpreted according to national cultural codes, and quality references are no longer French or Japanese, but Chinese.

Consumption is also moving towards experience and health: catering, sport, wellness, entertainment, training. All facilitated by excellent logistical and digital infrastructures, which enable access to new services even in smaller centres, where the potential for growth in consumption is often greatest. **Urbanisation** rates, despite the contraction of property investment, are still growing, and this structural trend is helping to drive new consumption habits. With digital wallets used by more than 95 per cent of users[4], China remains the **world's largest and most competitive online market**. Retail sales are growing, although the average price is falling[5] due to competition and deflationary pressures generated by the ongoing trade war.

Stock market: selective opportunities

Against this backdrop, the Chinese government has reinforced its commitment to **support the domestic equity market** by forcing large **institutional investors** to increase their allocation to onshore equities by **10 per cent** per year for three years, with **insurance companies required to allocate 30 per cent of new premiums for this purpose**[1]**.**

Government and Party in China continue to embrace some elements of the planned economy, but at the same time support market competition and believe in innovation as a lever to increase productivity. The success of this approach depends in large part on Beijing's ability to manage the balance between central control and local initiative: local governments are often reluctant to abandon their industrial champions not

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[3] Source: International Energy Agency, International Federation of Robotics
[4] Source: Research and Markets
[5] Source: National Bureau of Statistics

only to protect jobs, but also because their economic incentives are closely linked to the success of these enterprises.
And despite **US tariffs**, many sectors where China is dominant in terms of cost and scale - batteries, electronic components, machinery, footwear, solar panels - remain competitive even with higher barriers to entry.

Despite this, **international capital remains predominantly speculative**: even after the "DeepSeek Effect" at the beginning of the year, long-term investors have not yet returned strongly. A market dominated by speculative participants tends to be more volatile and less efficient in assessing the potential of the best companies. Therefore, current valuations in some cases offer **good opportunities to participate in future revaluations**.

China may seem like a multifaceted enigma, difficult to comprehend at a single glance. However, it is precisely in the complexity of its manufacturing, technological and cultural ecosystems that **selective opportunities** lie for the patient and knowledgeable investor.