China: What do local clients think about the economy? Local marketing takeaways April 2025

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Over the past week, we met with onshore clients in Beijing and Shanghai, including mutual funds, private equity firms, and asset managers from banks, brokers and insurance companies. Compared to two months ago (late February), local investors are more concerned about China's economic outlook, mainly due to the elevated US reciprocal tariffs and the uncertainty surrounding the Trump administration's China policy. This uncertainty has heightened market volatility, contributing to "volatility fatigue" among investors. On average, local investors have lowered their expectations for the pace and scale of traditional policy easing measures (RRR cuts, rate cuts, fiscal stimulus), as these tools are seen as less effective in addressing structural issues and shifting China's growth model toward consumption. They believe China will prove more resilient than the US and that the US may eventually ease its tariff stance, which would reduce the need for aggressive policy easing. However, they remain cautious about shocks to the labor market and deflationary pressures from domestic sales of goods intended for export. Their main concerns include the possibility of coordinated tariffs to block Chinese exports and US escalation beyond a trade war (e.g., the risk of ADR de-listing).

Key Takeaways:

1. Heightened Concerns Over US-China Trade War

Onshore clients have limited risk appetite for the near term (1-2 months), citing rising market volatility and uncertainty around the US-China trade war. They are exploring a game theory framework to assess US-China economic competitiveness and the ultimate goal of the Trump administration — whether to bring manufacturing back to the US or focus on constraining China. Local investors are also closely monitoring US political and economic developments, particularly to assess whether the US will feel the pressure to return to negotiations with China. They believe China should remain hawkish, as restrained responses are unlikely to prompt the US back to the negotiation table. Key concerns include coordinated tariffs blocking Chinese exports and US escalation beyond a trade war.

2. Optimism on China's Resilience in the Trade War

Local clients comment that US-China trade data and channel checks show limited short-term flexibility for American importers to find alternative sources, even under tariff pressure. They also believe it would be difficult for the US to settle trade deals with major economies within 90 days. As a result, many expect the US to lower China-focused tariffs and grant firm-level tariff exemptions to soothe market and consumer sentiment. However, some investors are concerned that the decline in US orders may persist, adversely impacting both activity and sentiment in export-related sectors. Even if US-China de-escalation occurs soon, growth headwinds and deflationary pressures are likely to remain for some time. Companies may also accelerate their efforts to move production outside of China or seek alternative sources of supply. Optimistic investors expect US tariff reductions within 3 months, while others foresee a full de-escalation only by Q4 when leadership meets at APEC/G20 summits.

3. Low Expectations for Policy Easing in China

Onshore investors have lower expectations for China's upcoming easing measures compared to offshore investors who are calling for more aggressive fiscal stimulus. With Q1 activity outperforming expectations and April data showing limited export decline so far, local clients expect policymakers to remain reactive, rather than proactive, in implementing measures to boost short-term domestic demand. Many expect the next round of policy easing to occur after the July Politburo meeting. This allows policymakers to assess the economic impact of US tariffs, with US and China post-tariff data releases and a clearer view of US-China trade war dynamics. For example, if the US reduced its tariff on China, this would lead to a smaller economic impact and less substantial policy easing. Local clients think rate and RRR cuts may come only if clear signs of an economic slowdown appear, with fiscal policy adjustments depending on the ongoing effects of US tariffs and trade reallocation.

4. Long-term Economic Reform More Important than Short-term Stimulus

Most local clients emphasize the importance of long-term reforms over short-term stimulus. Policies to enhance the social safety net, such as subsidies for new births and expanded social insurance for migrant workers and flexible employment, would support long-term consumption growth and shift China's growth model toward domestic demand. Cash-backed urban village renovations could balance economic growth with improved housing quality. Supply-side reforms are seen as essential for alleviating deflationary pressures, though their execution remains challenging. In the short term, clients expect targeted easing for tariff-hit companies and households, such as financial support and tax/social insurance payment relief. Structural monetary policies are considered more important than broad-based easing, and clients also expect more policy support for capital markets to stabilize sentiment. In contrast, aggressive rate cuts could lead to capital outflows and inefficient investment. The subsequent FX depreciation against major trading partners could heighten concerns over trade diversion from China. Investment-led stimulus may exacerbate overcapacity issues and increase local government debt further.

Xinquan Chen

Disclosure Appendix

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