



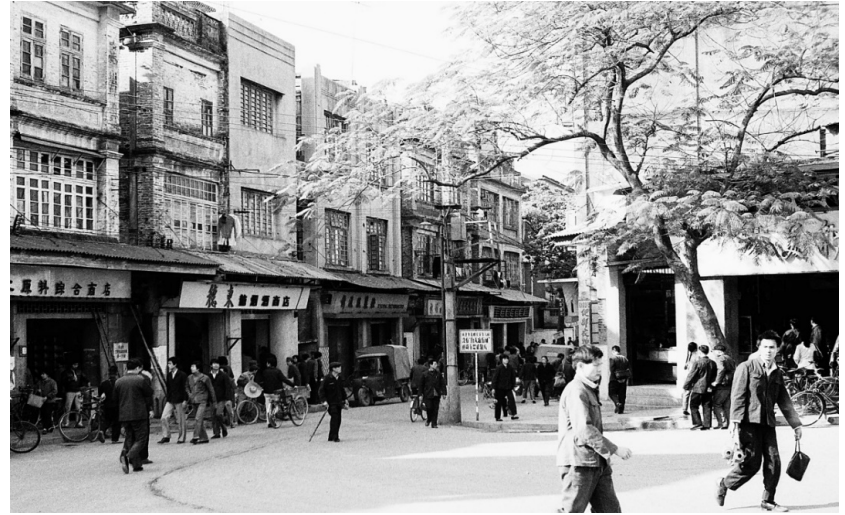
Sinology

WILL TRUMP MAKE CHINA GREAT AGAIN?

Getting Inside the Heads of Xi & Trump

April 2025

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Tariff War – Both Sides Claim They Want Peace

- ❖ Trump: “I believe we’re going to have a deal w China . . . I have a very good relationship w Xi”
- ❖ Beijing: “Trade wars produce no winners . . . Shared opportunities for US & China”




On The Ground In Xiamen: Not Angry. Bewildered.



Beijing Wonders If Trump Really Wants A Deal



Donald J. Trump 
@realDonaldTrump

"A Gift from China" in the Pacific Ocean!



Nvidia Says U.S. Will Restrict Sales of More of Its A.I. Chips to China



If Trump Wants A Deal, What Is His Objective?

- ❖ **Fentanyl Precursors Better Controlled?**
- ❖ **Trade Deficit Reduced?**
- ❖ **An “army of millions and millions of human beings screwing in little screws to make iPhones” in America?**
- ❖ **BYD Factory In The US?**
- ❖ **Decoupling?**
- ❖ **Containing China?**
- ❖ **Who Can Represent Trump In Negotiations?**

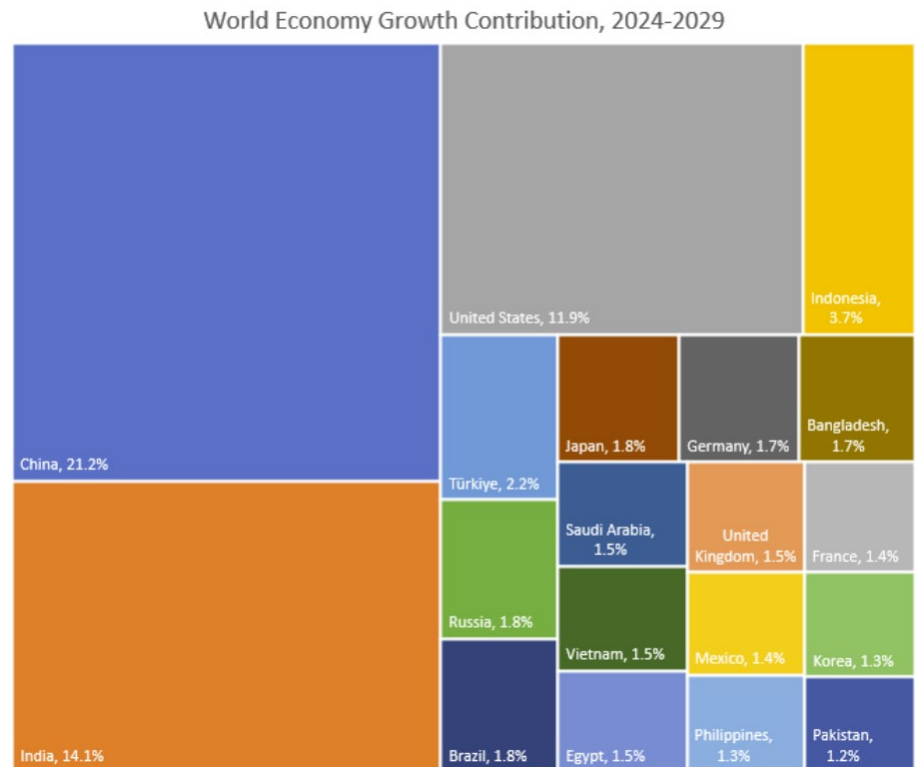
Are Xi Jinping or He Lifeng Looking Forward to This?

“I run the country and the world” – President Trump, March, 2025



Economy Decent So Beijing Feels Confident

- 2024 real per-capita household income up 5.1% YoY; 5.6% in 1Q25
- 2024 nominal retail sales up 3.5% YoY; 4.6% in 1Q25
- 2024 electricity consumption up 6.8% YoY (and 35% higher than 2019); 2.5% 1Q25
- IMF forecasts 2025 GDP growth of 4% in China, second only to India (6.2%)

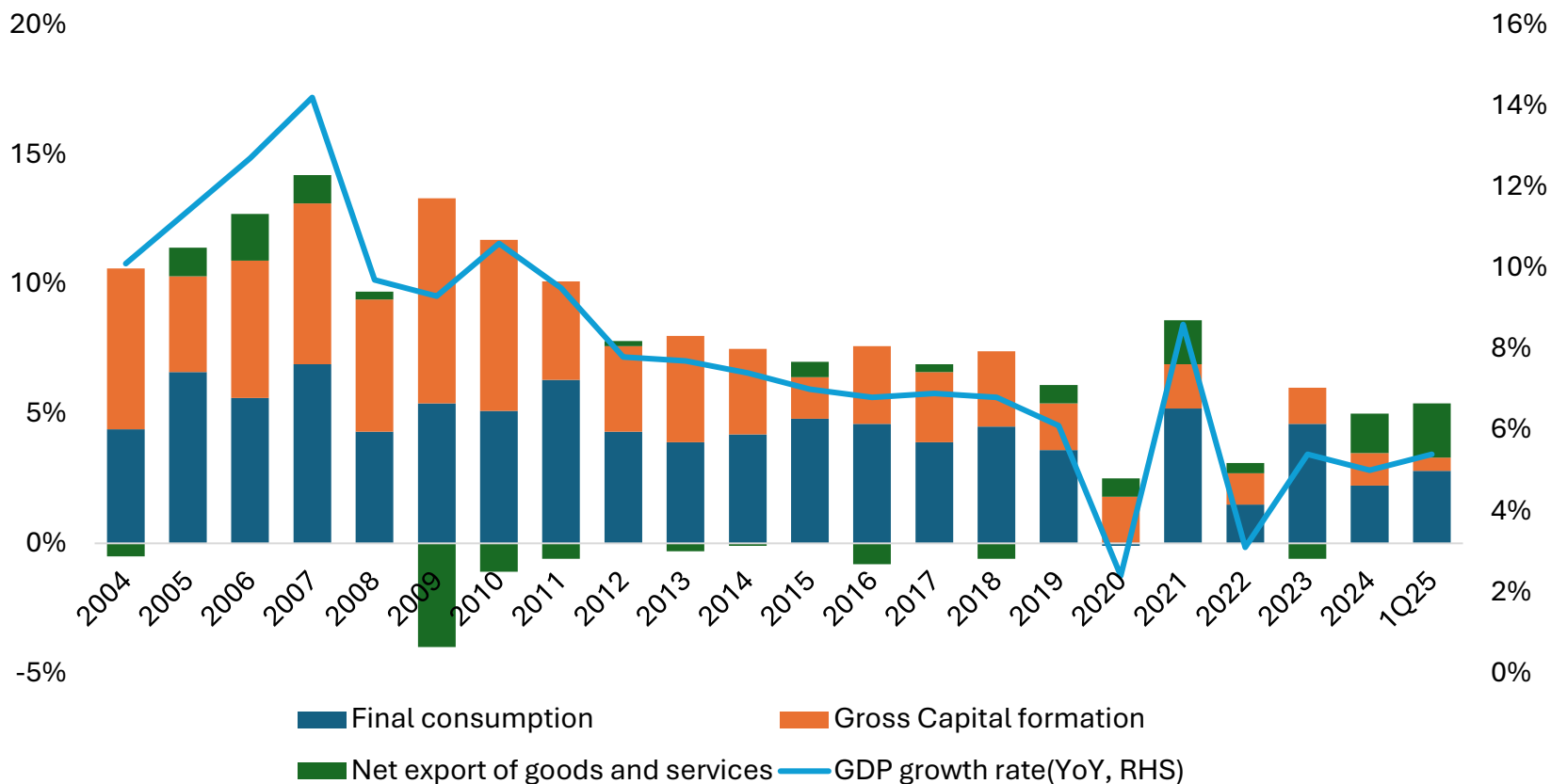


Sources: Bloomberg using IMF WEO April 2025 forecasts; CEIC

China Not Export-Led

Net Exports Contributed 1.1% of GDP Growth On Average Between 2015-2019; 30% in 2024 and 39% in 1Q25

CONTRIBUTION TO REAL GDP GROWTH

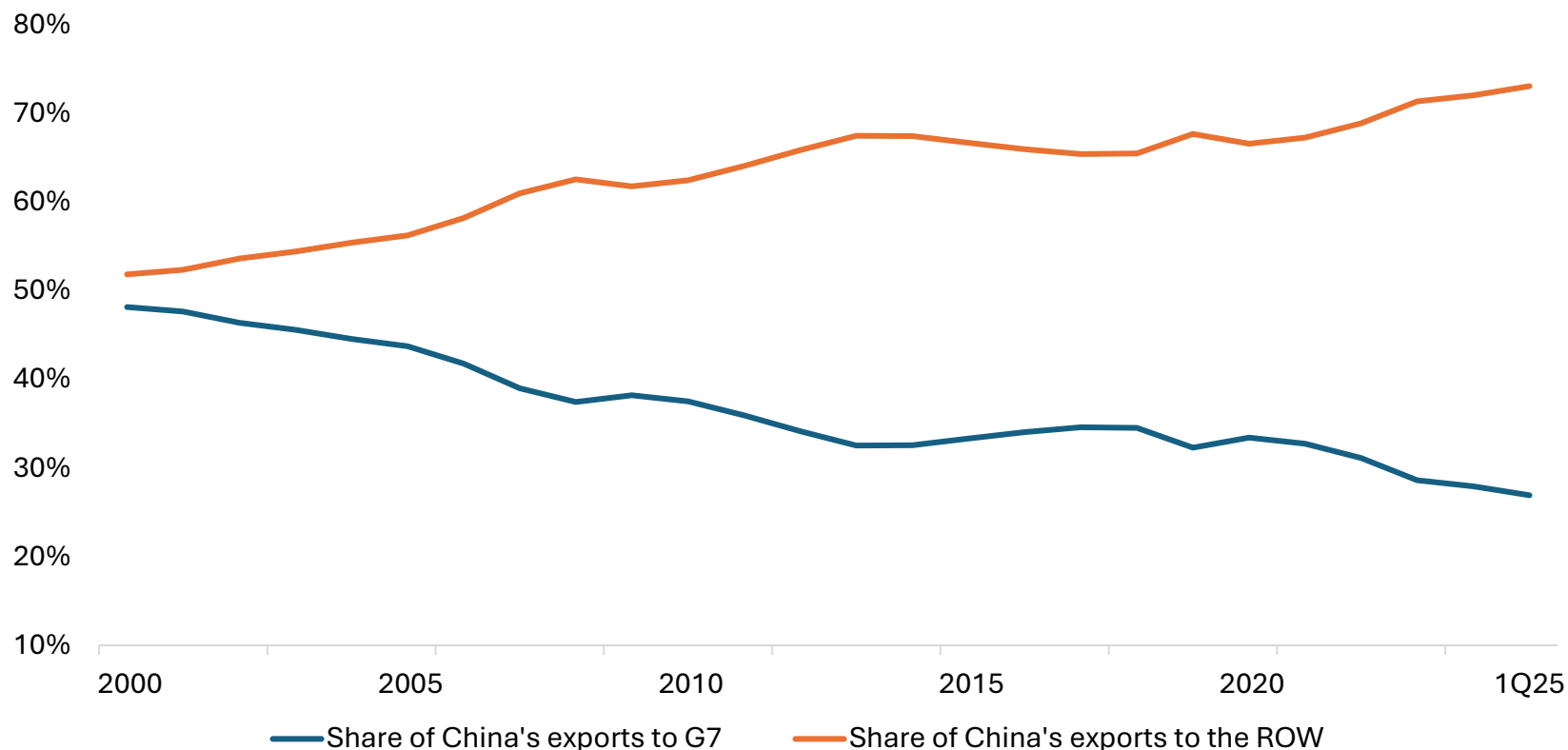


Source: CEIC

Will Trump Blink? Tariffs Will Hurt The US More Than China

- ❖ US took 15% of China's exports last year, equal to 2.8% of China's GDP
- ❖ G7 accounted for 27% of China's exports in 1Q25, down from 48% in 2000
- ❖ **TECH RESTRICTIONS** - NY Fed: "China has boosted domestic innovation and self-reliance"

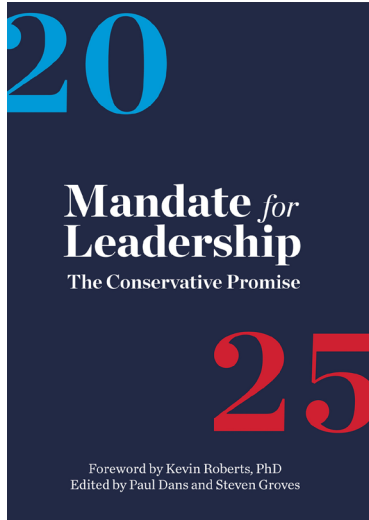
SHARE OF CHINA'S EXPORTS TO G7 AND THE REST OF THE WORLD



Sources: CEIC, NY Fed

Risks If Negotiations Fail

Trump is surrounded by China hawks



“The Chinese Communist Party (CCP) has been ‘at war’ with the US for decades.”



“The PRC exploits US investors to finance and advance the development and modernization of its military.”

Trump Is Offering Xi Two Great Opportunities

- ❖ Pressure on exports is an opportunity for Xi to accelerate & deepen consumption
- ❖ Trump alienating the rest of the world is an opportunity for Xi to build alliances



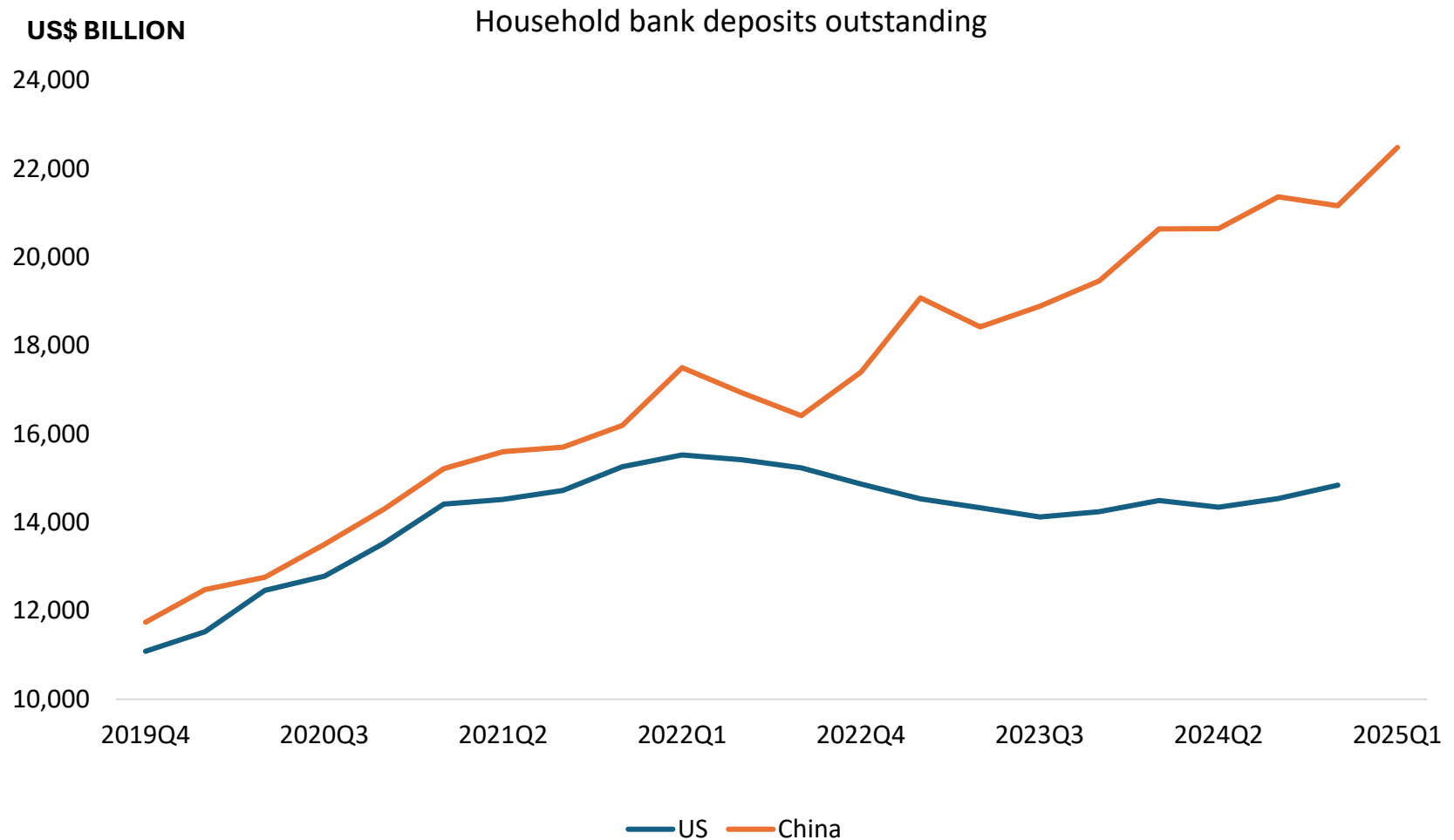
Consumer & Entrepreneur Confidence Is Terrible

CHINA CONSUMER CONFIDENCE INDEX



Source: CEIC

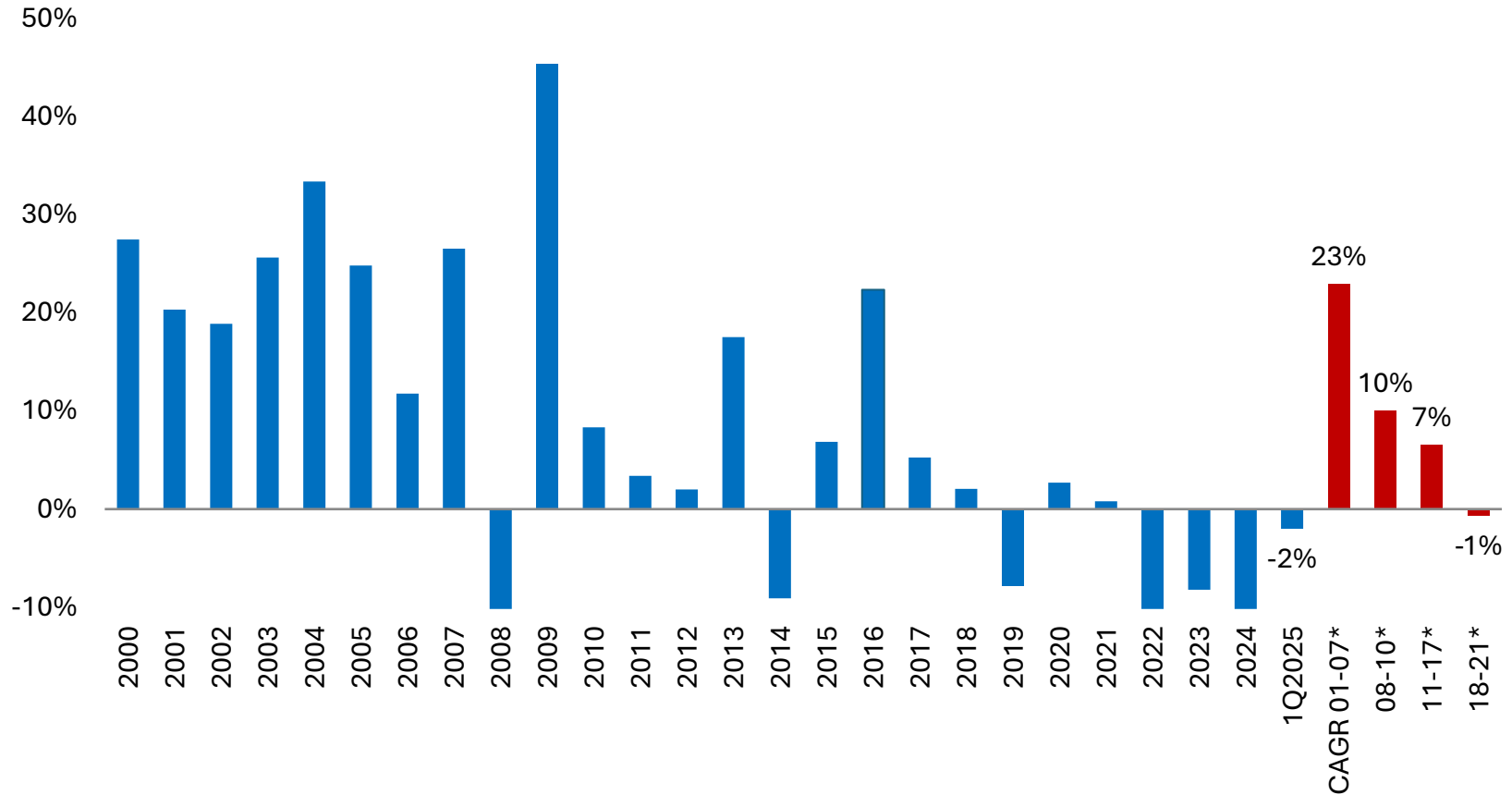
No Confidence To Spend Or Invest



Sources: CEIC, US Federal Reserve

Because Of A Volatile Regulatory Environment

RESIDENTIAL FLOOR SPACE SOLD BY SQM, YOY

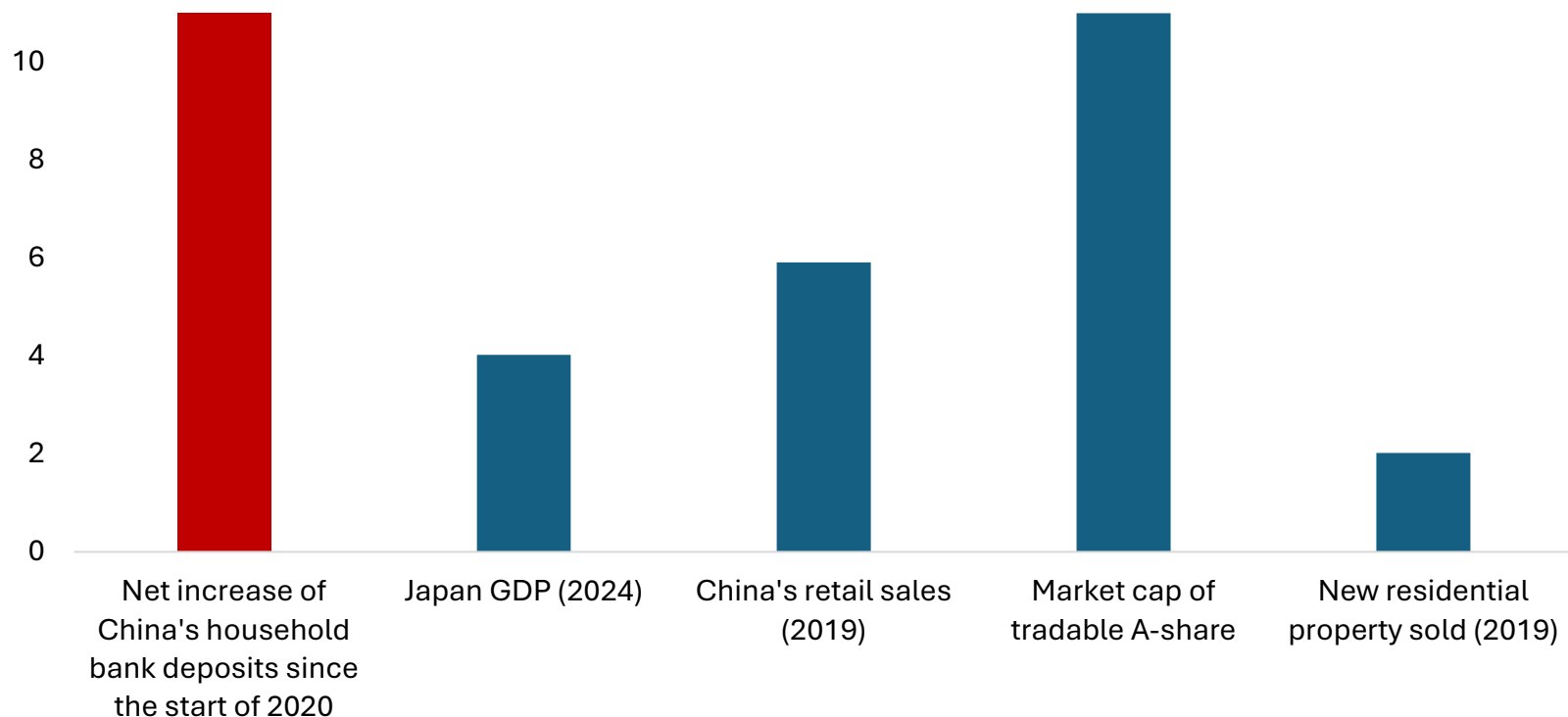


Sources: CEIC, Sinology LLC

When Confidence Returns, Household Savings Can Fuel A Recovery

Since start of pandemic, household bank deposits up 97%; net increase equal to \$11.1 trillion

US\$ Trillion



Source: CEIC. China's household bank deposits and A-share market cap are by March 2025

How To Restore Confidence?

❖ Structural reforms to promote entrepreneurs

❖ *Xi: "It is time for private enterprises and private entrepreneurs to show their talents"*

❖ *Xi: "I have always supported private enterprises"*

❖ Structural reforms to promote consumption

❖ *Leadership of Party & Government announced a "special action plan to boost consumption"*

❖ *Xi's top political goal is promoting domestic demand*

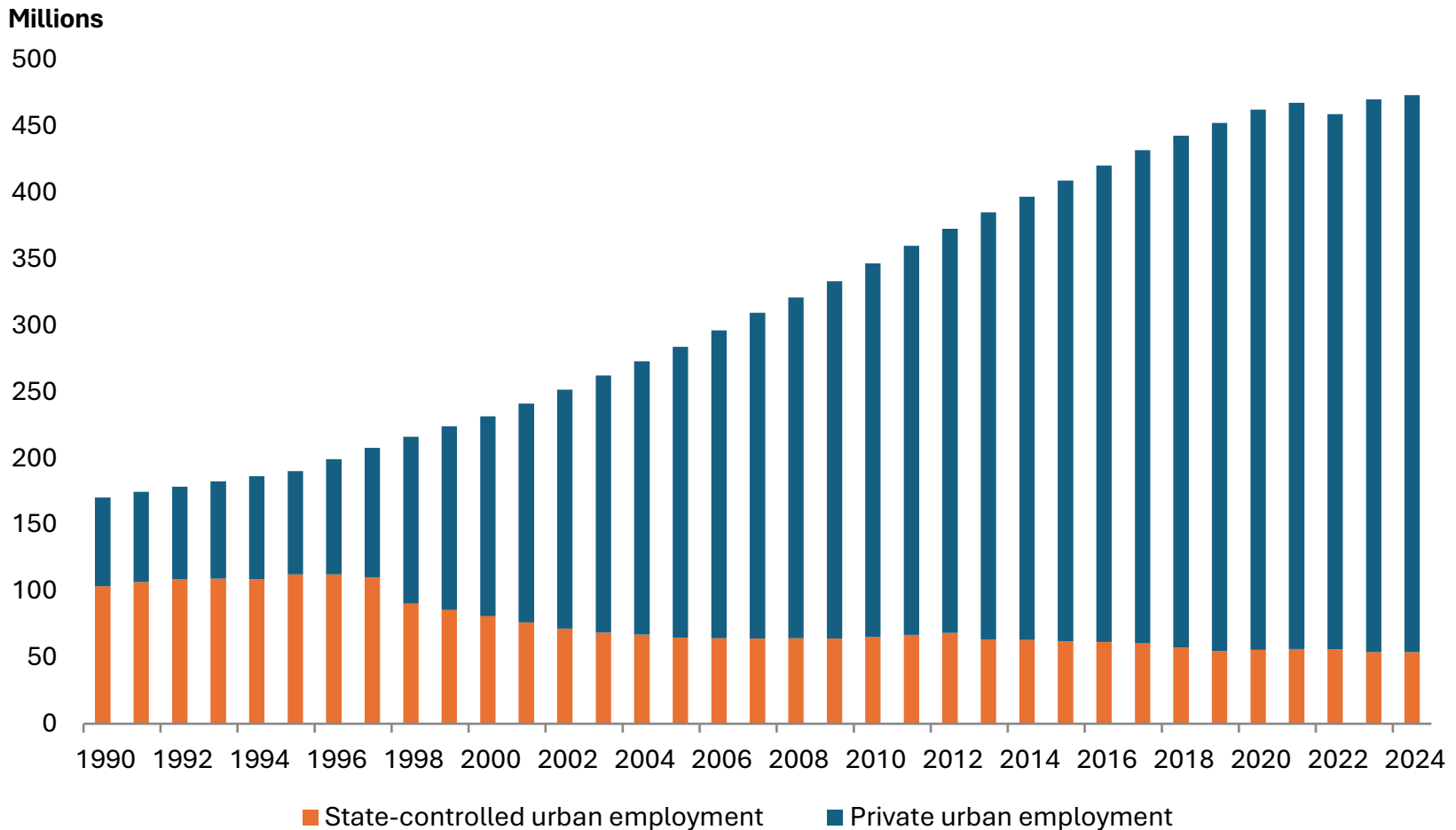
Bold, Structural Reforms Have Made China Rich

When I first visited China in 1980, its per capita GDP was less than Afghanistan & Haiti

- ❖ **1978: Deng “Seeking Truth From Facts;” Economics over politics**
- ❖ **1992: Deng’s Southern Tour launched private firms**
- ❖ **Late-90s: 46m SOE layoffs; privatize housing; WTO talks begin**
- ❖ **Early-2000s: Entrepreneurs invited to join the Party, which became a ruling rather than revolutionary organization**

Private Firms Create China's Jobs, Innovation And Wealth

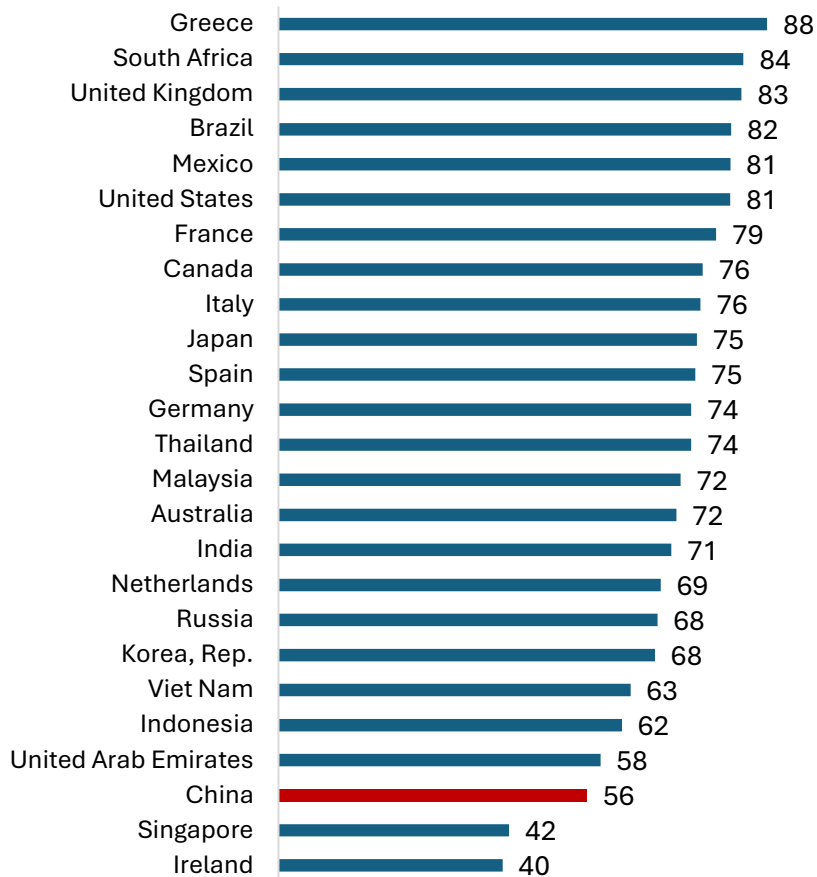
❖ 89% of urban employment now in small, privately-owned, entrepreneurial companies



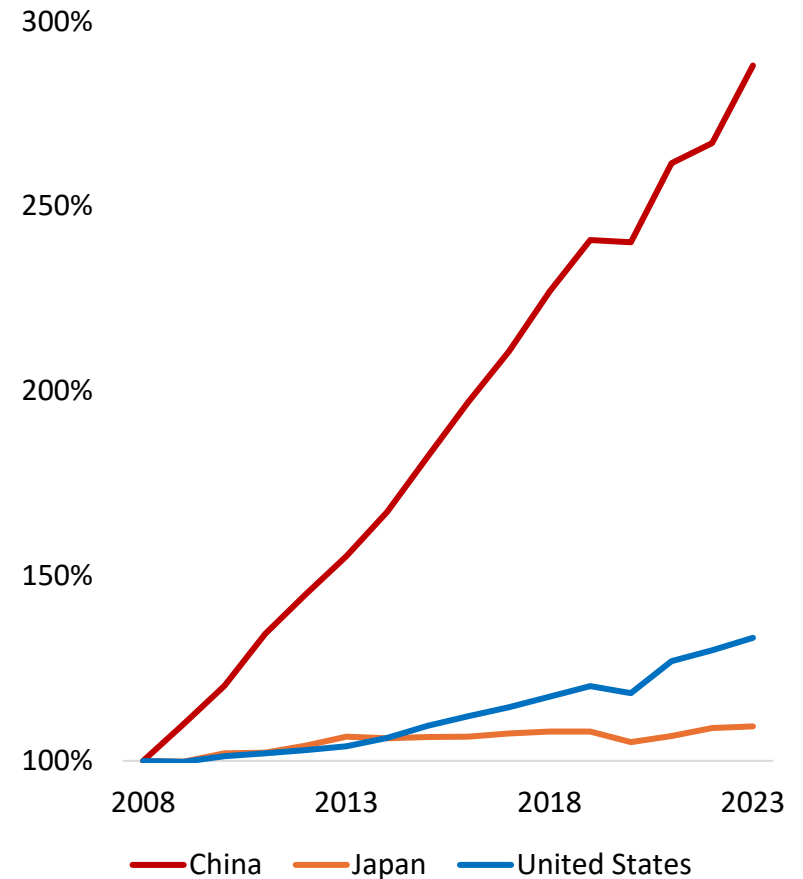
Source: CEIC

Consumption: Growing But From A Low Share

FINAL CONSUMPTION AS % OF GDP (2023)



FINAL CONSUMPTION AT CONSTANT LOCAL CURRENCY
(2008=1)



Sources: World Bank, Sinology LLC

Second Opportunity: Build Alliances

Trade Power: Most countries have more trade with China than the US

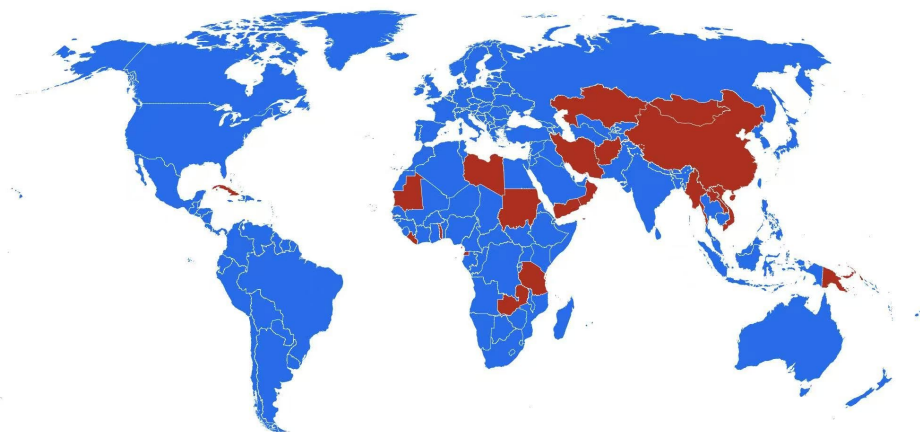


US as the larger trading partner

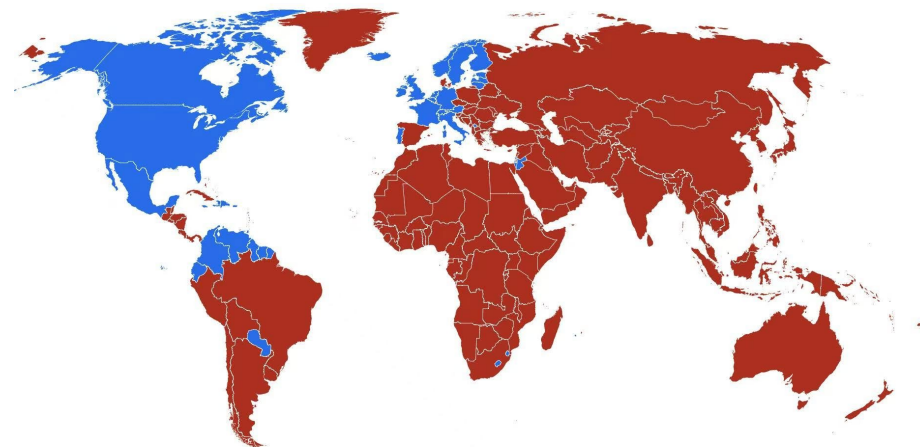


China as the larger trading partner

2000

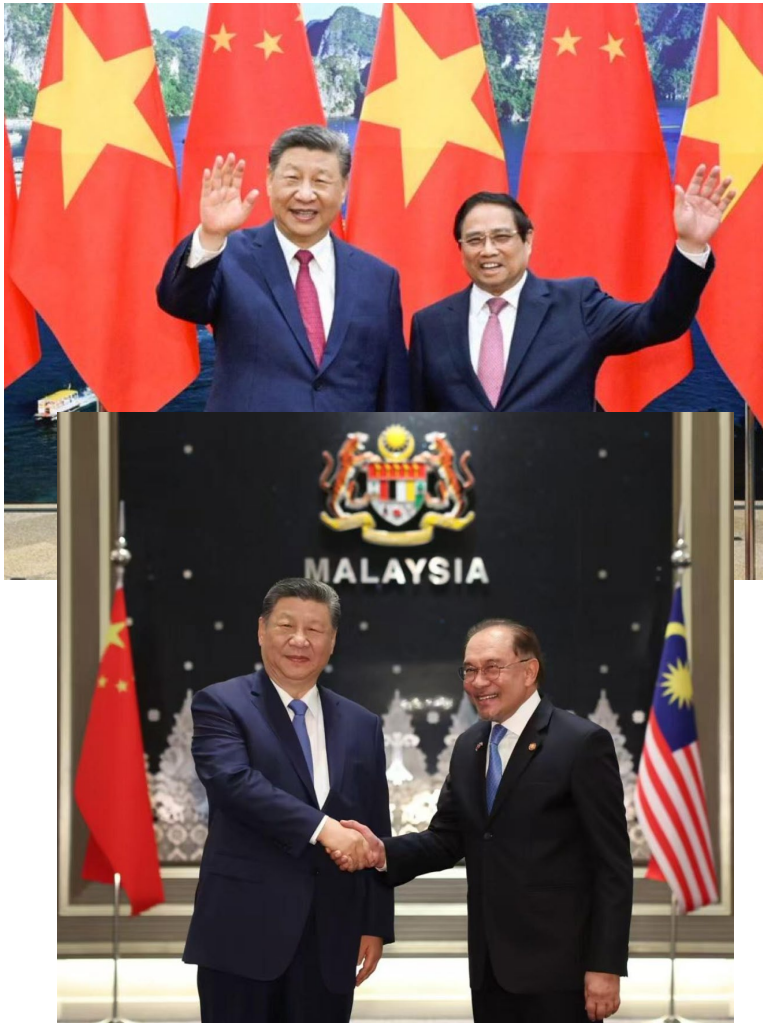


2024



Sources: U.S. Census Bureau, CEIC

Can Beijing Learn The Art of Soft Power?



Taiwan Conflict Unlikely



Xi Will Be Pragmatic About Taiwan (If Washington Is As Well)

- ❖ **DOMESTIC POLITICS**—No pressure on Xi to use force
- ❖ **MILITARY**—Use of force would be very risky for Beijing from a military perspective
- ❖ **ECONOMIC**—An invasion would trigger an economic disaster. For example, China is dependent on imported semiconductors, and Taiwan accounts for more than one-third of chip imports



↓ Xiamen

Source: US Library of Congress

Despite Chaos, Investors & Directors Can't Ignore China

- ❖ **China will remain the world's second-largest and fastest-growing consumer market**
- ❖ **World-class competitors will continue to come from China**
- ❖ **China will remain a key part of global supply chains**
- ❖ **China is likely to continue to account for about 20% of global economic growth, larger than the combined share of growth from the US and its G-7 developed nation partners**

With 40 years of experience, Andy Rothman, founder of Sinology LLC, has a unique perspective on China.

Andy Rothman provides advice to institutional investors and corporate directors on the opportunities and risks presented by China. He collaborates with Julia Zhu, his China-based research associate for more than 20 years.

Andy is also Senior China Fellow at the Asia Society of Northern California, and is a member of the board of directors of the Coral Tree Education Foundation.

Andy has provided advice to investors and directors, and spoken at board meetings and conferences on topics such as prospects for the Chinese economy and its private sector companies; navigating rising political tensions between Washington and Beijing; assessing risks of conflict across the Taiwan Strait; and China's impact on global supply chains and competition.

Andy began his private sector career in 2000, as the Shanghai-based China macro strategist for CLSA, an institutional brokerage and investment group. After living and working in China for more than 20 years, in 2014 Andy moved to California to become the China strategist for Matthews Asia, one of the largest, active, US-based investors in China's public equity markets. His clients included global wealth managers, pension funds, endowments, family offices, private banks, hedge funds and sovereign wealth funds. He established Sinology LLC at the start of 2025.

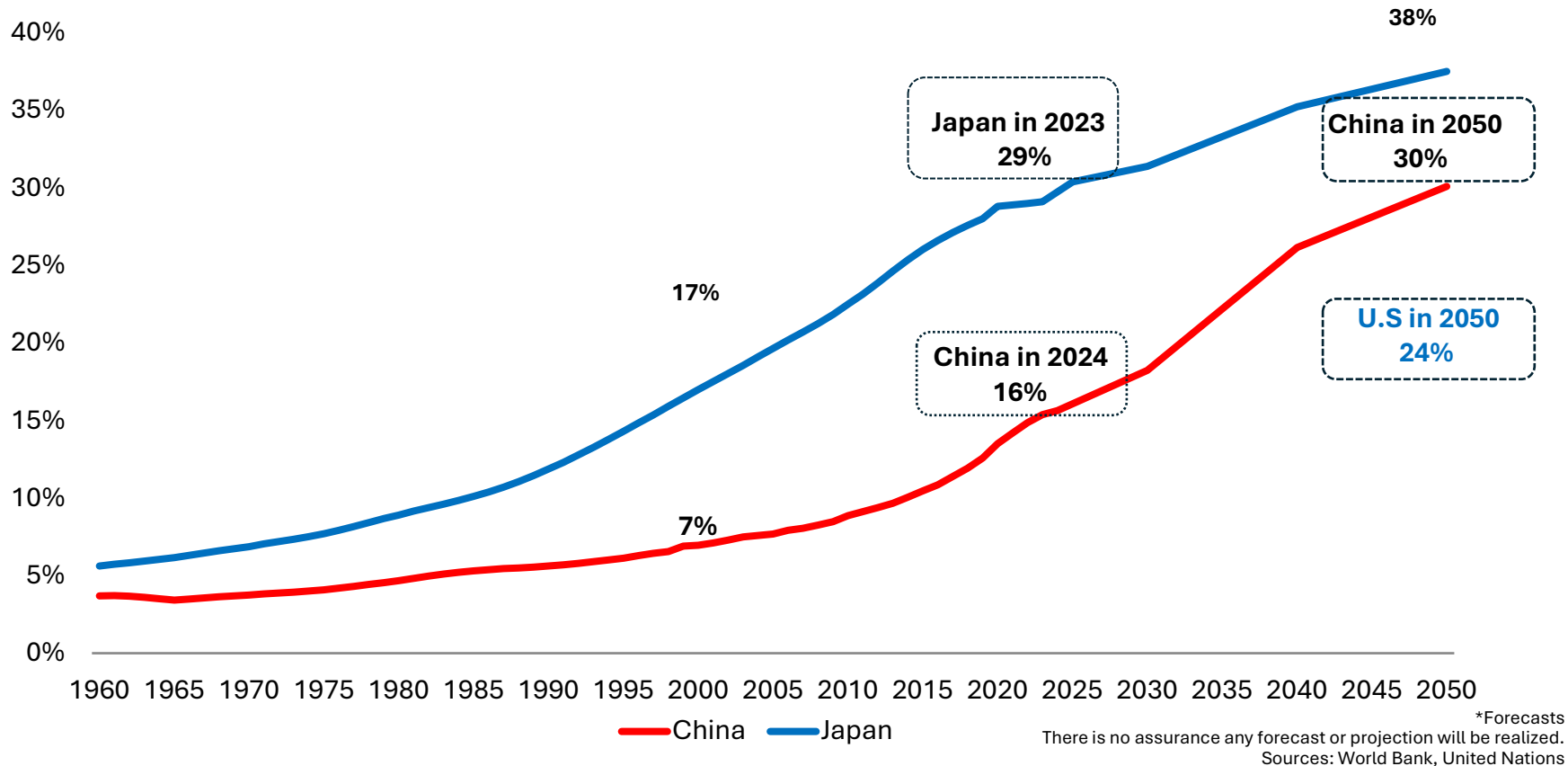
Previously, Andy had a 17-year, China-focused career as a US Foreign Service Officer, including serving as the Taiwan desk officer at the State Department in the mid-90s, when China fired missiles near Taiwan. His final diplomatic role was head of the macroeconomics and domestic policy office at the American embassy in Beijing.

Andy first went to China as a student in 1980, just a few years after Mao's death and the end of the Cultural Revolution. In 1984 he began his diplomatic career in Guangzhou, as Deng Xiaoping launched his economic and social reforms. He also attended China's first rock concert, by Wham!



China Is Aging, But Won't Be As Old As Japan Is Today Until 2050

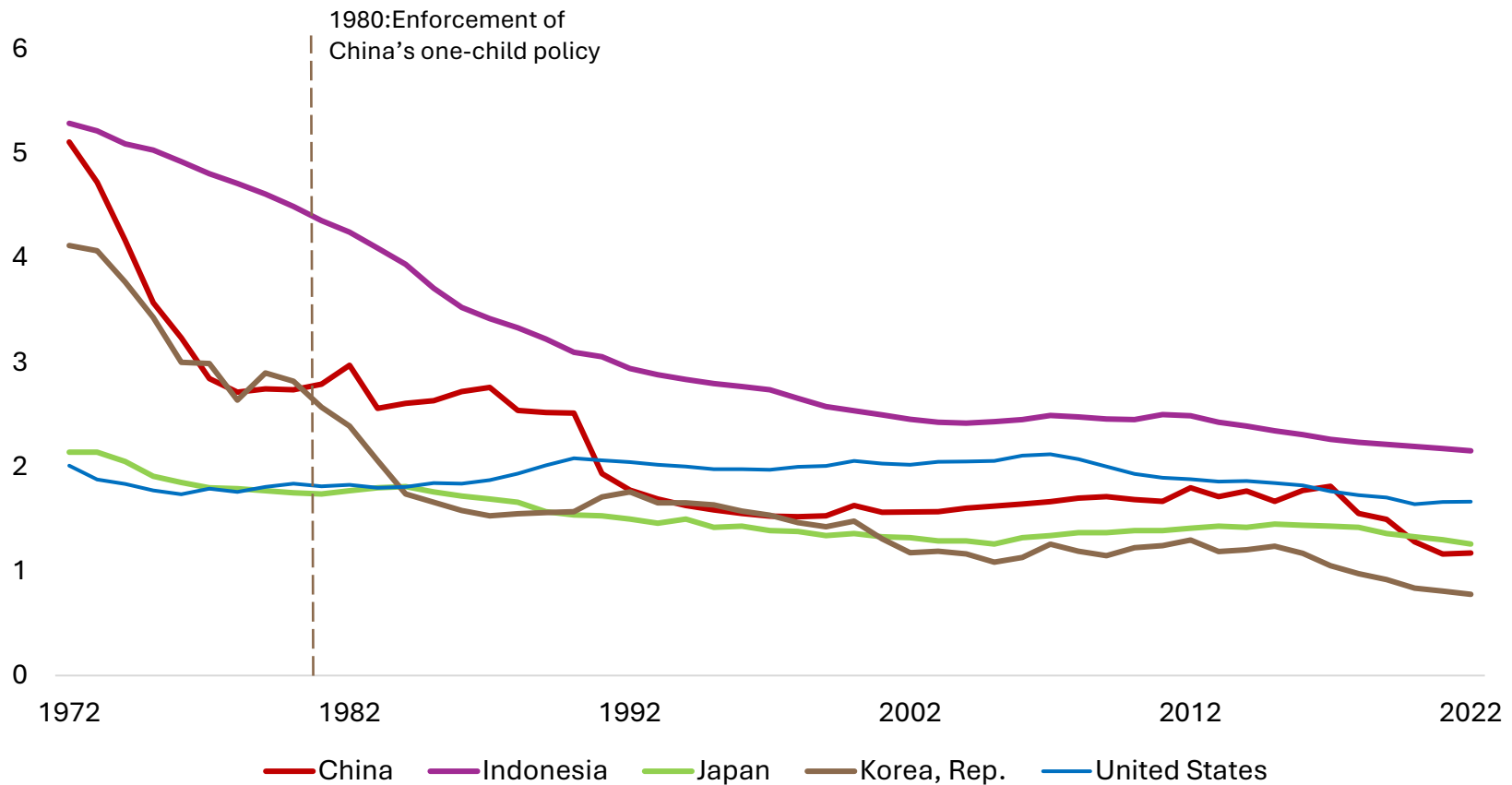
% OF POPULATION AGE 65 AND ABOVE



Demographics

End of One-Child policy was politically important, but wasn't the key driver of declining fertility rate

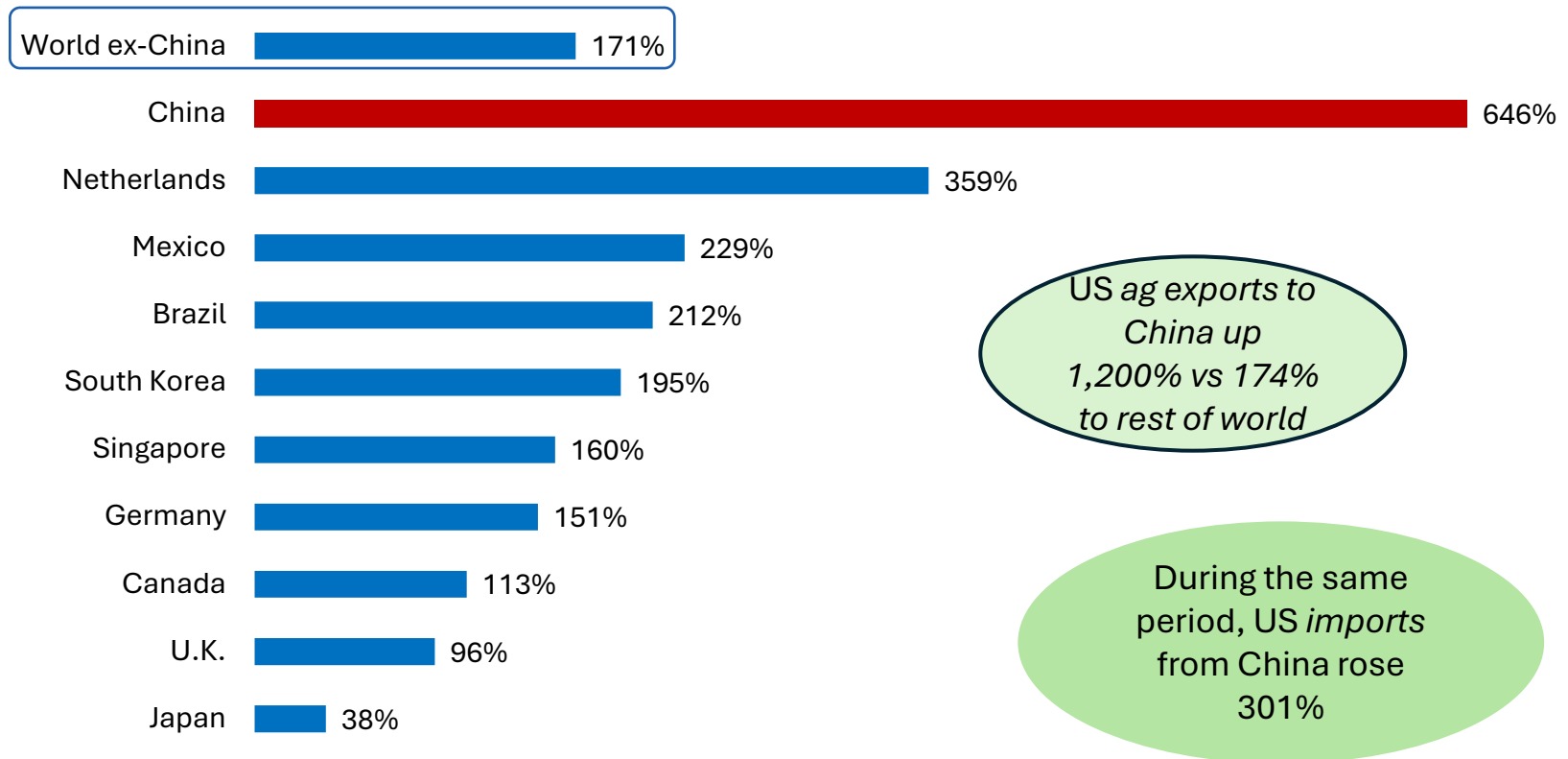
BIRTHS PER WOMAN



Sources: World Bank, United Nations, as of June 2024

China Supports American Exports And Jobs, But Beijing Will Retaliate

Growth rate of US goods exports to its 10 biggest markets, since China joined the WTO in 2001

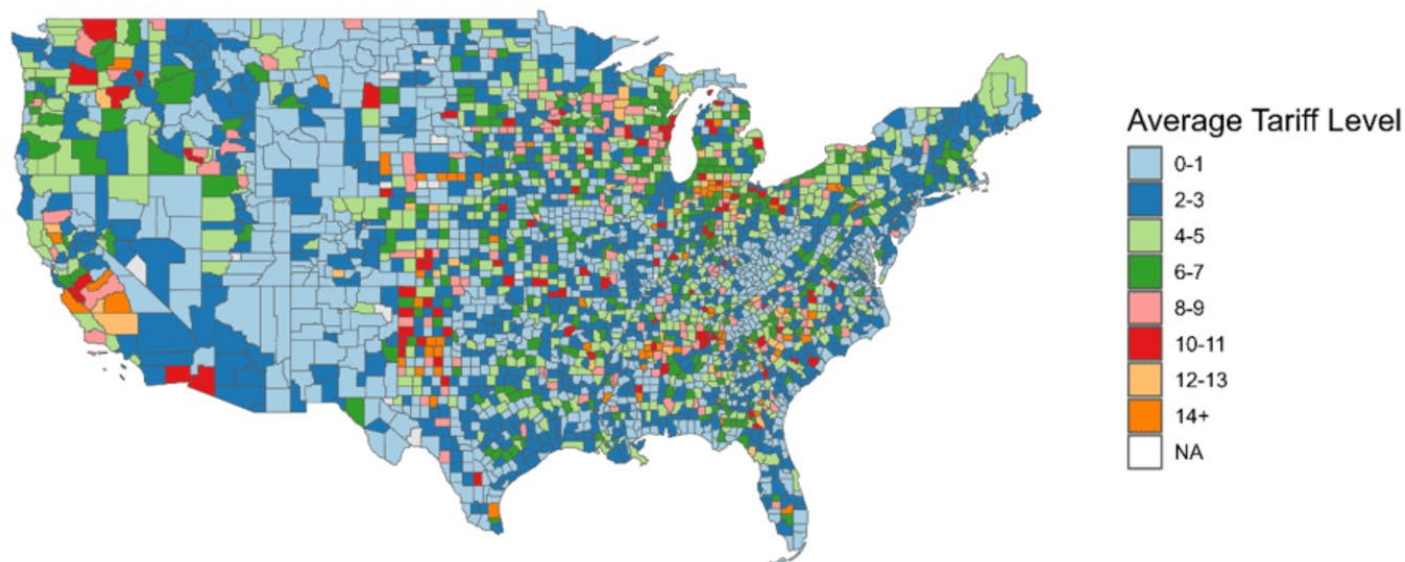


Source: CEIC, data for period 2001 to 2024

Will Trump Voters Eventually Reject Tariff Wars?

❖ **The 14 US counties most severely impacted by the tariffs all voted for Trump, according to data from the Richmond Fed [ex-retaliation]**

Figure 4b: Average Effective Tariff Rate by County
Scenario 2



Sources: Census Bureau international trade data and authors' calculations.

If Inflation Jumps, Will Trump Voters Rebel?

