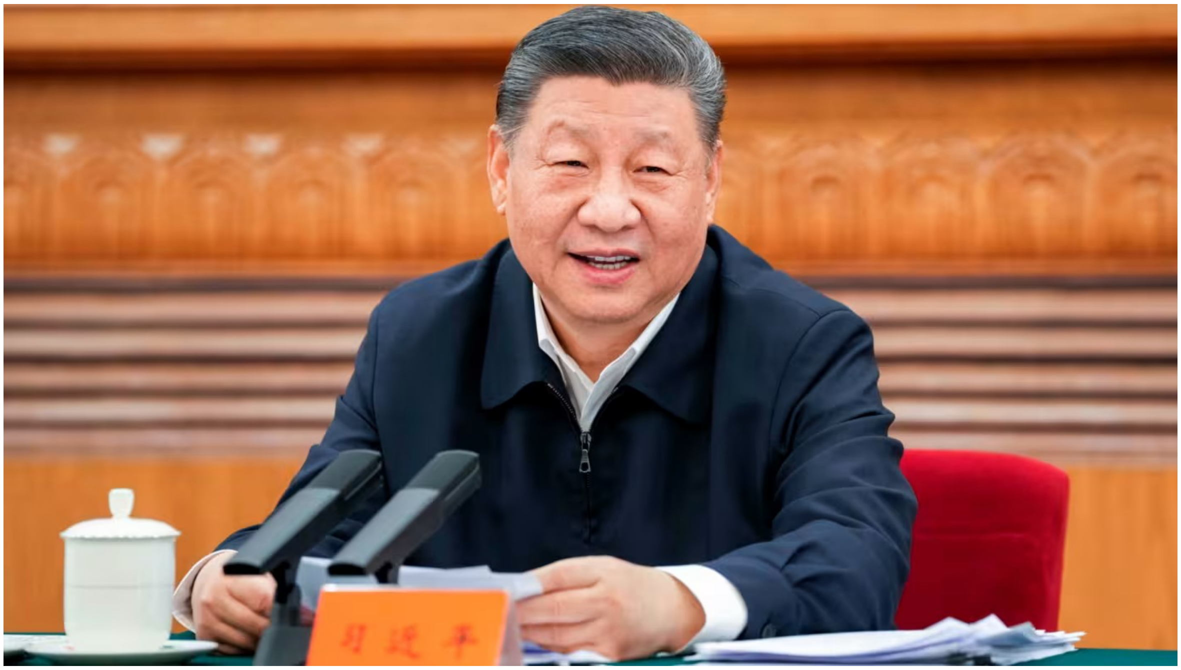
Opinion **Chinese business & finance**

Is China investable again?

It always was — at the right price and for those with eyes wide open to the economic downside

RUCHIR SHARMA



Chinese President Xi Jinping is trying to revive animal spirits, sending peace feelers out to the private sector © Zhan Zheng/AP

Ruchir Sharma 17 HOURS AGO

The writer is chair of Rockefeller International. His latest book is 'What Went Wrong With Capitalism'

With Chinese stocks rallying hard this year, global investors are asking: is the country investable after all?

The answer is yes, and it always was. The broad Chinese market had fallen sharply this decade for a variety of reasons, but it was wrong for investors to dismiss the world's second-largest market as uninvestable. Even now nothing fundamental has changed. No great economic revival is under way. The economy is still burdened by an ageing workforce and crippling debt, which are likely to slow the trend growth to under 3 per cent, well below Beijing's target.

The big shift is in sentiment, accelerated by the recent news that DeepSeek offers a cost-effective Chinese alternative to US artificial intelligence. Investors — foreigners in particular — are now rediscovering China for what it has been all along: a difficult market but too vast to be ignored, and capable of generating great innovation and opportunity in select pockets.

The Chinese market started to rally last year, as the government began unveiling some big-sounding stimulus measures. Most foreign investors stayed on the sidelines, spooked by the sticky growth slowdown and Beijing's regulatory crackdowns. Then came Donald Trump's election as US president, which only reinforced the belief that this market had become too risky to invest in.

If anything, Trump is turning out to be softer than expected on China, and the tariff pressure he has applied so far is pushing President Xi Jinping to make his country investable. Xi is trying to revive animal spirits, sending peace feelers out to the private sector. Last week, he staged a high-profile meeting with business leaders, and declared it fine to "get rich first" in China again.

Geopolitical risks are receding, too. The big fear was the "Russia scenario" — Beijing would excommunicate itself from global markets by pressing its claims on Taiwan, as Moscow did by moving into Ukraine. Since China is a more important trade partner to many more countries than Russia, this risk was always a bit overblown. And now, there is a sense that under Trump, China is less likely to face sanctions over any action in the Taiwan Strait.

Increasingly, investors recognise that China had become unreasonably cheap. Despite strong gains last year, it went into 2025 as one of the world's cheapest major markets, with stocks trading at half the average valuation in the US.

That leaves a lot of untapped value. China now has more than 250 companies with a market cap of over $1bn and a free cash-flow yield of more than 10 per cent; the US has fewer than 150. Of those 250-odd China stocks, all but about 20 are in sectors other than tech, led by industrial and consumer discretionary businesses, so the opportunities are not just in the internet and AI.

The story of "uninvestable China" rested in part on benchmarks showing meagre annual average returns going back to the early 1990s. But histories that long can mislead by skipping over the boom periods, including the mid-2000s and the late 2010s. Moreover, even as several tech and consumer companies delivered blockbuster returns last decade, the benchmarks did not include those companies for many years and so captured those gains only partially.

That tech boom collapsed soon after Beijing chose to reimpose party control over big tech companies, starting with Alibaba in 2020. To avoid this heat on the private sector, some investors moved money into state-owned groups, which still include 70 per cent of China's biggest businesses by revenue.

But by some measures, capitalism with Chinese characteristics is more competitive than its US rival. Large caps account for a smaller share of listed companies in China, leaving more room for newcomers. Among the 11 leading sectors, seven are less concentrated in China than in the US, meaning the top five businesses constitute a smaller share of each sector's market cap. China's tech sector is much less concentrated, which means a private upstart such as DeepSeek could rise in an environment less dominated by giants.

Of course, as long as the risks remain, including the threat of arbitrary state intervention, Chinese stocks will — and should — sell at a discount. The point is just that the discount had grown indefensibly large.

With investors recalculating the China discount, and the state entering a period of retreat, the rally could last. More gems could be discovered in this tough market. China is very much "investable", at the right price and for those with their eyes wide open to the economic downside.

Follow the topics in this article

Ruchir Sharma

Global Economy

Asia-Pacific companies

Equities

FT Edit