



## GLOBAL MARKET ANALYSIS

“How the recent growth of Chinese equity is impacting other Asian equity markets?”

An Article by:  
Amirarsalan Sepehrinia  
Amirhossein Asadi  
Greta Angelova  
Bence Laszlo Kozma  
Lucas Andrade



BOCCONI STUDENTS FOR COMMERCIAL  
AND INVESTMENT BANKING

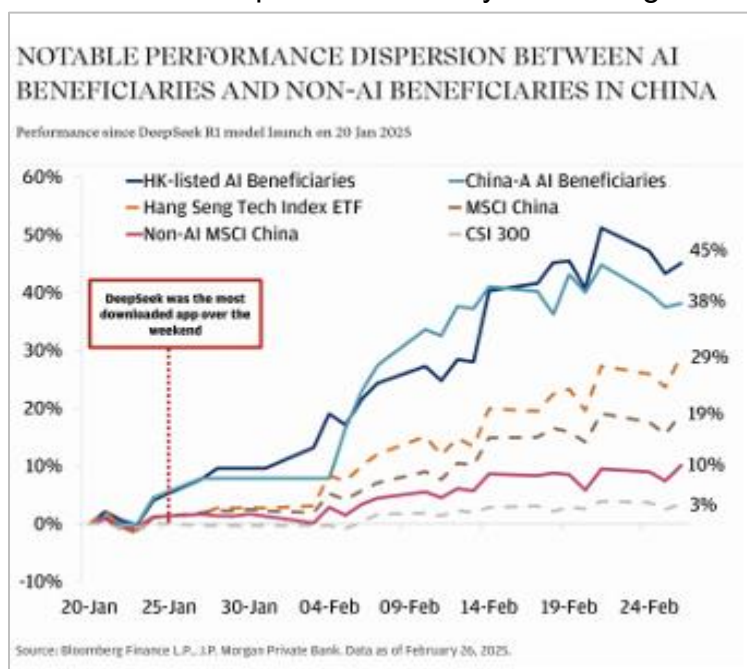
Global Markets Division

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# 1. Introduction

Over the past five years, China's equity markets have experienced significant fluctuations, influenced by a combination of domestic policy shifts, technological advancements, and escalating geopolitical tensions. However, in the recent year Chinese equities are among the best performing ones since they surged 20% year-to-date and more notably 40% since last September mainly because of the recent advancements in AI (DeepSeek), EV (BYD) and robotics. The reduction in cost and the proliferation of large language models (LLMs) are likely to accelerate AI adoption [J.P.Morgan]. As a result of open-sourced AI models seeing reasonable prices, Autonomous driving and robotics are becoming 2 rapidly emerging industries which could experience much faster development cycles than others. Cost effective AI implementation allows Chinese companies to experience a significant outperformance against the rest of the world in terms of leveraging on data and expanding operation, in order to improve business engagement. There is a broad consensus among experts that AI developments will boost earnings and growth around 5% in 2025. Nonetheless, this rapid AI growth possesses harm alongside its advantages: AI increases corporate efficiency and margins making firms employ it, but it also



decreases labor demand which enlarges rising unemployment, ultimately resulting in a socio-political crisis. The outstanding growth of the Chinese equity markets can greatly be attributed to the rapid growth of the digital economy sector since it encompasses 48RMB trillions of revenues in 2023 while in the same year the property and construction market only reached 37RMB trillions. Some analysts argue that this shows the exposure of the Chinese equity markets to AI, EV and robotics

growth and the current “bubble” (“Artificial rally”) is just a result of overly positive expectations on the aforementioned industries instead of being backed by macroeconomic indicators and performance. Their presumption is supported by the fact that the recent market rally focused only on a couple of stocks which have greatly outperformed the market, yet most of the non-AI listed firms underperformed year-to-date.

People's Bank of China is trying to spark investor interest by employing pro-equity market policies, such as, interest and mortgage rate cuts as well as favorable borrowing opportunities for households since data shows that Chinese people are reluctant when it comes to investing in assets aside from properties. The composition of Chinese household assets encompasses 57% of Properties and only 39% of equity while the average US household assets contain 30% of property and 64% of equity. The Government also tries to stimulate equity markets by offering depressed bond yields: the 10-year government bond yield is around 1,6% while the average return of the CSI 130 index is 3.5% [Allianz]. The indicated stimulus of the Government and of PBoC might provide ground for downside protection against recently experienced sharp volatility and enhance portfolio resilience.

Domestic demand for Chinese goods is at an all-time low level, excluding Covid-19, which might force the Chinese Government to rely more on exports rather than on its domestic economy. By the virtue of the this, the Chinese Government does not have much of a room when it comes to negotiations with the US Government regarding the trade war (tariffs) since in 2024 from the total \$582,4 billion trade, China has exported \$438,9 billion and only imported \$143,5 billion thus we can conclude that the Chinese economy relies greatly on its trade partner, however, the same can also be said about the U.S. since it relies on China's cost effective producing power. In April, the U.S. imposed tariffs up to 145% on Chinese goods, prompting China to retaliate with tariffs reaching 125%. These measures have disrupted supply chains and increased costs for manufacturers on both sides. As a result, Chinese companies are seeking alternative markets in Southeast Asia and Africa to mitigate the impact, however, that will have a tremendous effect on China's equity markets.

## **2. The Resurgence of Chinese Tech Equity: Innovation, Market Dynamics, and Future Outlook**

### **2.1 Introduction: The Evolution of Chinese Tech Equity**

Over the last decade, Chinese Technology Equities have struggled to consistently perform consistently, experiencing sharp rallies and steep tanks, rather than consistent long-term growth. Rapid technological advancements, regulatory interventions, and growing geopolitical tensions, have all played a significant role in swaying the “pendulum” one way or another. Notably, stocks rallied in the post-2015 boom led by platform companies such as Alibaba and Tencent, but faced a big correction between 2021-2023 during the crackdown on big tech. Additionally, uncertainty driven by skepticism on quality,

and fears of state interference, have been traditionally barriers preventing sustainable long-term growth. However, over the last year an innovation-driven transformation has piled up momentum on Chinese Tech, which could lead to significant long-term growth. This transformation is not driven merely by cyclical recovery, but by fundamental shifts in technology, policy, and capital deployment. At the core of this revitalization is China's emphasis on "deep tech"—advanced technologies like biotechnology, semiconductors, quantum computing, and artificial intelligence. In contrast to earlier consumer-internet models, these advances serve as the foundation for both national strategic independence and industrial modernization.

## **2.2 Innovation as a Catalyst: The DeepSeek Revolution**

In early 2025, DeepSeek introduced its R1 model, which is arguably the most significant event in China's tech equity recovery. The R1 series of open-source large language models (LLMs), created by the Chinese AI company DeepSeek, perform on par with or better than OpenAI's GPT-4 in reasoning tests. From e-commerce and education to government services and fintech, its open architecture, cheap operating costs, and compliance with Chinese regulatory standards have made it widely available across industries. According to Goldman Sachs, over the next ten years, the spread of LLMs like DeepSeek-R1 may help Chinese companies' profits per share (EPS) rise by 2.5% annually, which would equate to an additional \$200 billion in market capitalization. Following the release of R1, the Hang Seng Tech Index surged by 27% within one month, and the MSCI China Index gained 19% over the same period, signifying a market-wide revaluation of China's tech capabilities. The recent surge in AI has driven advancements in upstream industries like semiconductors. There has been a dramatic increase in the domestic demand for GPUs and AI accelerators to support workloads related to AI training and inference. In reaction to this demand, China has boosted state investment in chip design and manufacturing, introducing more than \$47 billion in new subsidies since the third quarter of 2024. Moreover, major consumer technology companies—including Tencent, Alibaba, JD.com, and Xiaomi—have incorporated DeepSeek APIs into their chatbots, virtual assistants, and smart devices, enhancing productivity tools and interactive functionalities powered by generative AI. These applications generate revenue through innovative cloud services, subscription models, and business process automation, creating entirely new streams of income.

## **2.3 Comparative Analysis: Chinese vs. American Equity Performance**

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The resurgence of Chinese tech must be understood in relation to global markets, particularly the U.S., where tech valuations have followed a different path. As of March 31, 2025:

- The MSCI China Index reported a trailing 12-month return of 40.44% and a year-to-date (YTD) return of 15.02%.



- The Hang Seng Tech Index, which includes major AI beneficiaries, rose 27% post-DeepSeek-R1 release in February 2025.
- In contrast, the S&P 500 experienced a 10% decline during the first 100 days of President Trump's second term, following tariff announcements and rising macro uncertainty.
- The NASDAQ Composite, heavily populated by U.S. tech giants, saw flat returns over Q1 2025 and lagged behind Chinese indices amid fears of AI overvaluation and mounting antitrust scrutiny.

This disparity indicates differing fundamentals. While U.S. tech faces challenges from high valuations, regulatory obstacles, and tighter monetary policy, Chinese tech is thriving due to low multiples, favorable policies, and a surge in product innovation. Chinese equities are still valued at historical discounts, as the forward P/E ratios for the Hang Seng Tech Index sit under 15x, while the NASDAQ 100 exceeds 25x.

The April 2025 report from J.P. Morgan highlights this transition, characterizing the surge in Chinese technology as “structural rather than cyclical,” pointing to a combination of significant innovation, capital influx, and governmental support. In contrast, analysts at Pepperstone contend that the integration of “technology, policy, and liquidity” in China generates a flywheel effect, where policy assistance enhances investment and product advancements boost investor confidence.

## 2.4 Future Expectations: Navigating Tariffs and Macroeconomic Challenges

Although there is a positive outlook, Chinese technology encounters significant challenges—particularly due to trade disputes renewed during President Trump's administration. On April 4, 2025, the United States enacted a 145% tariff on various Chinese imports, causing an immediate and adverse market response. The Hang Seng Index decreased by 13.3% in the following trading sessions—marking its most significant decline since the Asian financial crisis of 1997.

The tariffs created ripple effects throughout various industries. Exporters such as Lenovo, BYD, and Foxconn encountered order cancellations. Logistic companies indicated issues with cargo delays, while global corporations such as Procter & Gamble and PepsiCo provided profit alerts, pointing to increased import expenses. The leader of Flexport cautioned that the tariffs might result in "mass bankruptcies" for small and mid-sized importers, as 80% of clients are allegedly unable to stay financially stable with the new pricing structure.

Nevertheless, Beijing reacted with precise policy modifications. Instead of responding with widespread retaliation, the Ministry of Commerce provided specific exemptions for U.S. semiconductor parts, maintaining essential access for domestic chip manufacturers and AI innovators. This method embodies a practical viewpoint focused on managing macro shocks while maintaining progress in key industries.

Going forward, analysts predict mid-teen returns for Chinese technology stocks in the next 12–18 months, depending on global risk tolerance and domestic performance. As China enhances its capital market reforms and increases investments in industrial AI, its technology sector may signify not only a tactical advantage but also a strategic shift in global equity distribution.

### 3. Growth of Chinese Manufacturing Companies

China's rapid economic development over the last forty years is closely linked to the rise of its manufacturing companies. These companies started by making low-cost goods and later became global leaders in advanced technologies. Today, manufacturing makes up about 27% of China's GDP (2024 data, World Bank), showing how important it is to the economy.

By looking at how these companies grew, we can better understand China's economic transformation and its impact on global trade.

### **3.1 Early Growth: China as "The World's Factory"**

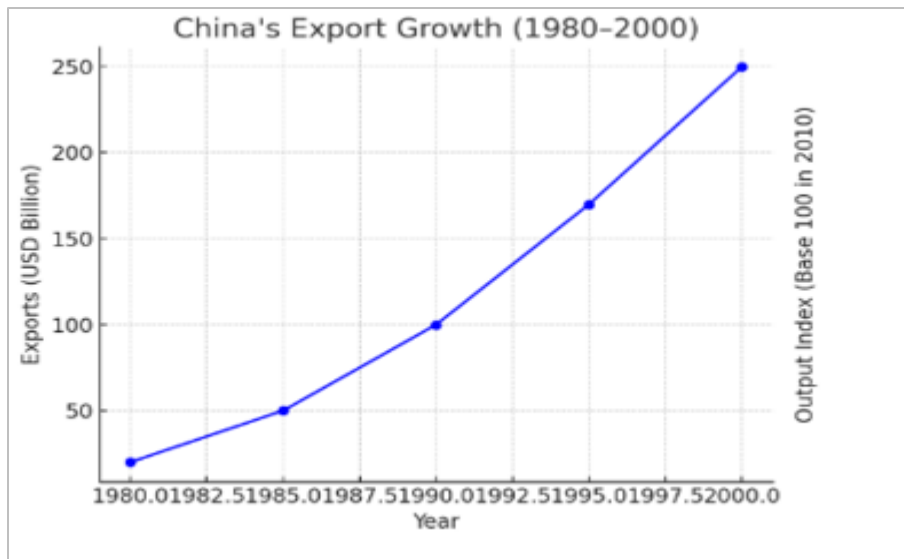
In the 1980s and 1990s, China opened its economy under Deng Xiaoping's reforms. Manufacturing companies quickly became the main engine of China's economic growth. China produced goods cheaply and efficiently thanks to low labor costs, abundant resources, and strong government support. This success helped China earn the title of the "world's factory."

During this period, manufacturing grew by 12–15% each year. Exports jumped from \$20 billion in 1980 to over \$250 billion by 2000. Companies like Haier, which made household appliances, and BYD, which started with batteries, expanded rapidly by selling affordable products to international markets.

China's advantages were clear. Wages were under \$1 an hour in the 1990s. The government invested heavily in infrastructure like roads, ports, and power plants. It also created Special Economic Zones such as Shenzhen, which attracted large amounts of foreign investment.

Foreign companies helped a lot by outsourcing production to China. This cooperation exposed Chinese companies to international standards and helped them improve their processes. At the time, China focused mainly on producing large quantities of affordable goods for export.





### 3.2 Modern Growth: Technology, Innovation, and Branding

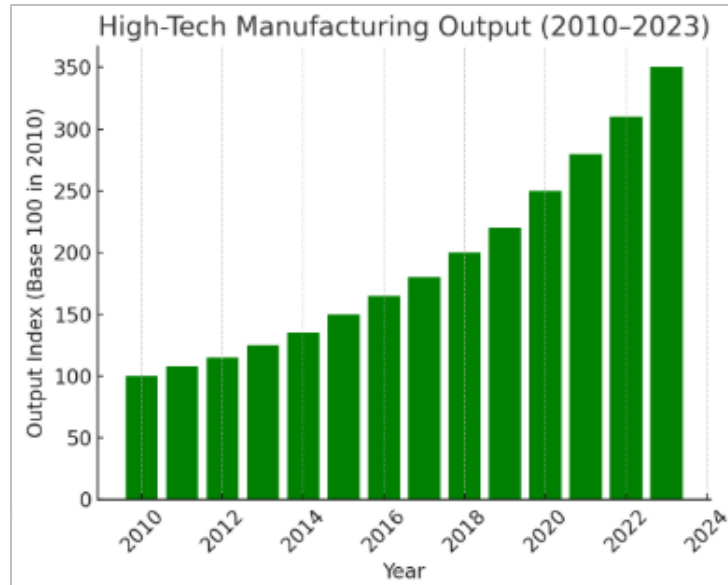
Today, the growth story of Chinese manufacturing companies is more sophisticated. Low-cost production still matters, but many firms now focus on innovation, high-tech industries, strong branding, and creating value.

Between 2010 and 2023, China's high-tech manufacturing output grew by over 50%. China also became the world's largest producer of electric vehicles (EVs), solar panels, and 5G equipment. BYD, which started as a battery maker, became the world's largest EV seller, even beating Tesla in China sales. Xiaomi combined manufacturing with innovation and became the third-largest smartphone maker globally in 2023. CATL now supplies more than 30% of the world's EV batteries.

The government strongly supported this transformation. In 2015, it launched the "Made in China 2025" strategy to help manufacturers upgrade their technology, improve product quality, and lead in fields like robotics, aerospace, biopharmaceuticals, and green energy. These programs aim to shift China from focusing on quantity to focusing on quality.

Another big trend is green manufacturing. As global concern for sustainability grows, Chinese companies are investing in cleaner production methods and renewable energy. This helps them meet international standards and opens new markets.

Reflecting these changes, Chinese manufacturing companies' profits grew by 13.4% in 2023, according to the National Bureau of Statistics of China.



### 3.3 Challenges and Future Opportunities

Even with their success, Chinese manufacturing companies face several challenges. Labor costs have risen sharply, with average wages reaching \$8–\$10 an hour by 2024. This is higher than in countries like Vietnam, India, or Bangladesh, making low-cost manufacturing less competitive. As a result, some companies are looking for cheaper production bases abroad.

Trade tensions, especially with the United States and the European Union, have also created new risks through tariffs and greater uncertainty. At the same time, global competition is getting tougher, with countries like Vietnam, Bangladesh, and Mexico attracting more outsourcing from multinational companies.

Despite these challenges, the future looks strong for Chinese manufacturers. China's domestic market is growing fast, and by 2025, the country is expected to have over 600 million middle-class consumers. This gives manufacturers a large and stable market for high-quality products.

Chinese companies are also investing heavily in automation, artificial intelligence (AI), and green technologies to cut costs, boost productivity, and move up the value chain. Green manufacturing is becoming especially important, as China aims for carbon neutrality by 2060. This shift is creating new opportunities in sectors like electric vehicles (EVs), wind power, and solar energy.

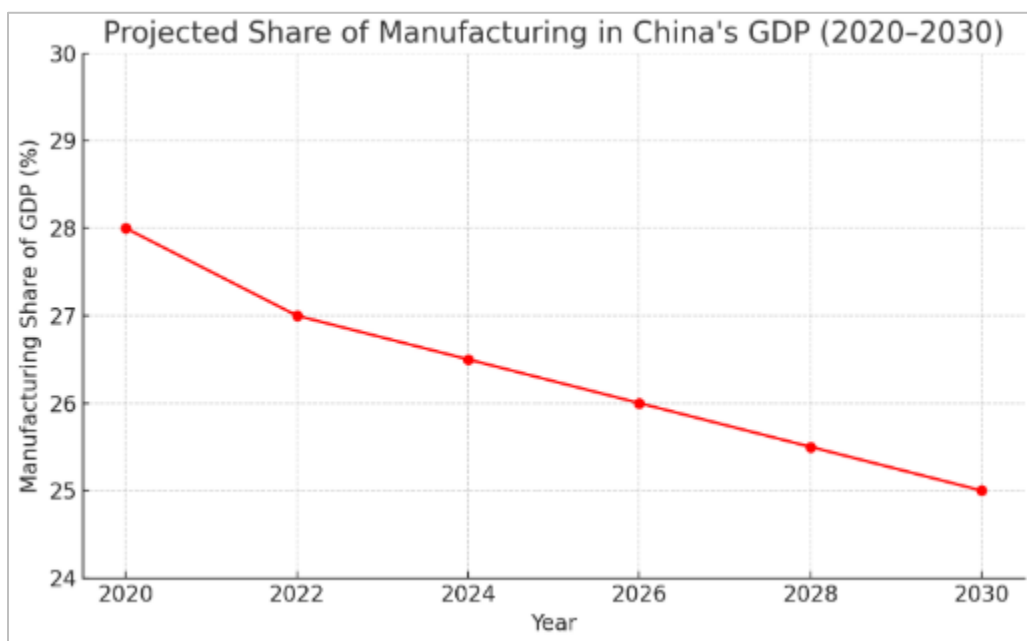
The results are already clear. In 2023 alone, China's EV production grew by 35%. Companies like BYD and NIO led exports to Europe and Latin America.

Today, Chinese manufacturers who innovate, adapt to global trends, and build strong international brands are competing not just on price, but also on quality, technology, and sustainability.

The growth of Chinese manufacturing companies is a story of transformation. These companies were once known for low-cost production, but now they lead the world in innovation and technology. Manufacturing is still a major part of China's economy, making up nearly one-third of its GDP and providing jobs for over 100 million people.

Although the sector's share of GDP is expected to drop slightly from 27% today to about 25% by 2030, its role will stay important. The focus is shifting toward high-tech industries like electric vehicles, semiconductors, robotics, green energy, and smart factories powered by AI.

Instead of shrinking, Chinese manufacturing is evolving. It is climbing the global value chain and leading the next wave of industrial innovation, helping China secure its place as a global economic leader.



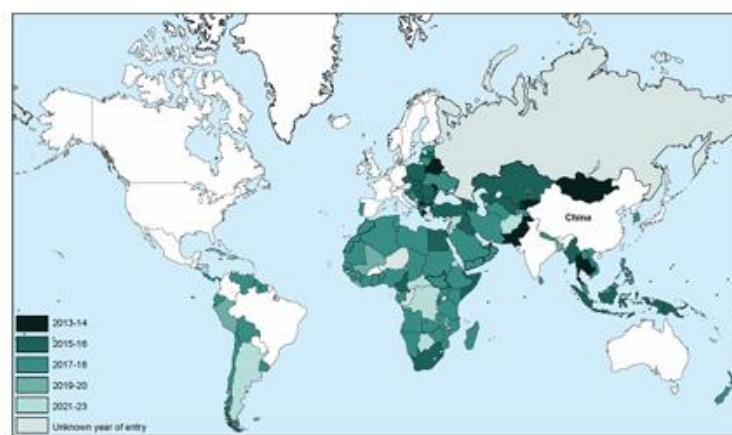
## 4. The Recent Growth of Chinese Equity Impacting Other Asian Equity Markets

### 4.1 China's role in the Asian infrastructure sector

The Chinese infrastructure sector sits at the helm of the Asian infrastructure landscape, with an estimated size of \$1.17 trillion and an expected CAGR of 6.32% in the 2025-2030 forecast period. China's involvement in other countries' infrastructure creates complex interrelations between both leading and developing Asian countries, whose equity markets depend largely on Chinese regulatory policies and political and investment decisions.

China's Belt and Road Initiative has become one of the world's leading infrastructure finance initiatives and is responsible for funding countless highway, energy, road, telecommunication, and other infrastructure projects in various countries. From 2013 to 2021, China loaned \$679 billion for such endeavors, with the largest beneficiary being Russia. In 2024, the Middle East became BRI's largest recipient due to a 102% increase of engagement in construction.

However, the initiative has prompted disputes about its long-term benefits. While the host countries have undoubtedly benefited from the infrastructure expansion and the increased energy generation, many of them have found themselves largely indebted to China. Pakistan, for example, leads the ranking with an outstanding debt of \$26.6 billion, with other countries like Laos and Kyrgyzstan following suit. These agreements are considered by some to be poorly negotiated and entrapping the host countries by limiting their long term growth prospects due to unsustainable debt. Their inability to make the payments on time has also led to deadline extensions, loan restructuring, and even bailouts.



*Countries that have entered into BRI agreements with China*

Nonetheless, the BRI has undeniably solidified China's position as one of the world's largest creditors, especially to developing countries. Taking into account this initiative, as well as China's influence on the geopolitical and regulatory factors at play, it's safe to say that the Chinese equity market has a significant impact on all other Asian equity markets.

## **4.2 How has China become a leader in the infrastructure sector?**

China's enormous construction workforce and industrial capacity have bolstered the growth of Chinese firms to unprecedented magnitudes. This has resulted in an ever-increasing control of the global supply chain for materials and infrastructure exports to Asian and African countries. Because of this, the stock prices of many Chinese firms are heavily influenced by the geopolitical scene.

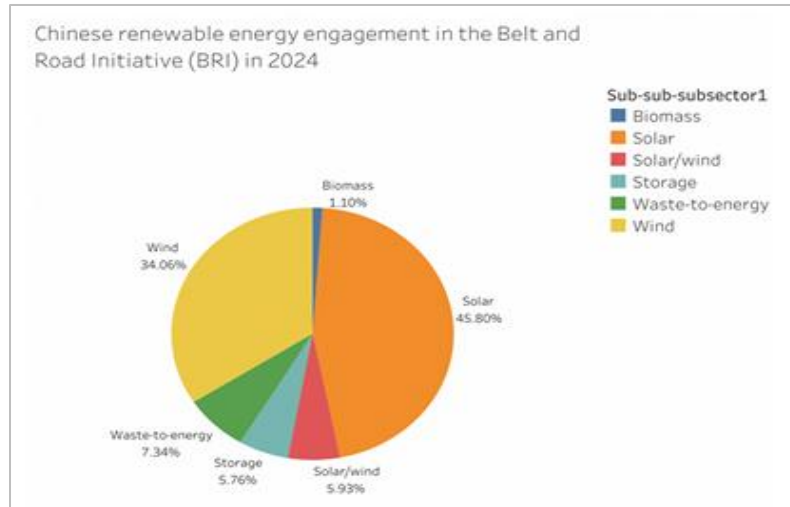
For instance, China State Construction Engineering Corporation is the world's largest construction company (by revenue) and operates large-scale projects in over 100 countries. This, however, means that major obstacles related to projects in these countries can lead to an immediate stock price drop. In 2024, China Construction America (CSCEC's US based subsidiary) had to file for bankruptcy due to the \$1.6 billion judgement against it awarded by a New York state court. The construction delays and lack of proper management and oversight during the Baha Mar Resort project naturally worried investors and resulted in significant price fluctuations.

Other leading Chinese infrastructure firms are China Railway Group Limited, China Railway Group Limited, and China Communications Construction Company. By 2030, China's railroad network operating length is expected to reach 180,000 kilometers, a third of which will be high-speed railways. Compared to the 93,000 kilometers in 2011, China has truly experienced immense infrastructure expansion. Of course, this provides opportunities for other Asian countries to take advantage of, but it also increases competition and makes breaking into the market and even remaining competitive in it very hard. The firms that cannot adapt stand no chance against the production capabilities of Chinese companies.

## **4.3 The path to green energy**

A clear trend in the Chinese energy markets is the shift towards renewable energy, 64% of which was produced by China in 2024. This also means an increase in green energy investments and that the stock prices of Chinese firms engaged in green energy projects were on the rise as more ESG-focused investors entered the market. Yet, many of the leading companies, such as LONGi Green Energy Technology Co. and Xinjiang Goldwind Science & Technology Co., have experienced downward pressure in their stock price due to tighter regulations, increase in competition, and broader market challenges like the recently introduced US tariffs.

As mentioned above, China has helped other Asian countries expand their energy infrastructure and strengthen their equity through the Belt and Road initiative, although it remains the leader in wind and solar energy production.



Furthermore, China is experiencing an overcapacity in solar modules and EV batteries which in turn makes prices plunge, so it negatively affects other Asian producers. The same applies for the cuts and increases of Chinese imports and exports because they sometimes result in price shocks, causing stock prices of some companies to crash.

In early 2025, China reduced its coal imports from Indonesia by 9% due to weaker domestic demand combined with dissatisfaction caused by the introduction of the Harga Batubara Acuan (HBA) benchmark, setting a floor price. Because of this decrease, Indonesian coal prices fell due to excess supply and the net profit of large coal producers like PT Bumi Resources suffered.

## 5. Conclusion

China's recent equity market resurgence reflects more than just a cyclical rebound, it marks a strategic shift in the nation's economic and technological trajectory, which is fueled by innovations in AI, EV, robotics, and green energy. Chinese equities, particularly in the tech sector, have significantly outperformed global peers. At the heart of this transformation is the emergence of Deep Tech, supported by state-led initiatives,

corporate adaptation, and expanding export channels. Open-source AI models like DeepSeek and the rapid adoption of industrial automation have catalyzed both productivity gains and equity market valuations.

Simultaneously, China's manufacturing sector is evolving beyond its traditional low-cost base, integrating advanced technologies and environmental priorities. Companies like BYD, CATL, and Xiaomi exemplify how Chinese firms are climbing the value chain.

China's economic influence also extends across Asia through initiatives like the Belt and Road, driving infrastructure growth and shaping regional equity market dynamics. Yet this interdependence comes with risks, particularly around debt sustainability and market volatility linked to geopolitical friction.

Overall, the transformation of China's equity markets highlights a broader repositioning of the country within global finance and trade. Also, China's strategic investments in technology and green development position it for long-term leadership in both emerging industries and global capital markets.

**Short-term Effects:**

- Recent policies (rate cuts, mortgage easing, equity market support) have lifted sentiment and boosted indices like the Hang Seng Tech Index and MSCI China Index.
- AI and EV firms are experiencing earnings upgrades and investor inflows.
- Export strength supports manufacturing, but geopolitical retaliation and tariffs (e.g., U.S. tariffs up to 145%) could constrain further upside.

**Long-term Effects:**

- Without a rebound in consumer demand or deeper reforms, over-reliance on tech-driven momentum may create systemic vulnerabilities.
- A decoupling from U.S. supply chains adds uncertainty, even as firms pivot toward Southeast Asia and Africa.

Over the next 12–18 months, tech equities are likely to outperform. However, broader market gains will depend on rebalancing China's growth model. Stabilizing consumption, expanding inclusive innovation, and managing geopolitical risks will determine whether this resurgence marks a new growth era or a short-lived rally.

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