

Daily Dose of Macro & Markets 17th July 2025: “The Next China Shock”

The ‘Daily Dose of Macro & Markets’ is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday, Thursday and Friday morning (early London time).

Key Quote:

“We Warned About the First China Shock. The Next One Will Be Worse.”

Source: NYT, 14th July 2025, “We Warned About the First China Shock. The Next One Will Be Worse.”;
<https://www.nytimes.com/2025/07/14/opinion/china-shock-economy-manufacturing.html>

The Next China Shock

Earlier this month (9th July), we wrote about the contest between China and the US to achieve **(global) energy dominance** (and how it appeared that China was winning – at least for now). That write-up was based, in part, upon some work showcased in the New York Times (NYT). See [HERE](#) for detail.

In another fascinating NYT article, David Autor (economics professor at MIT) & Gordon Hanson (economics professor at Harvard’s Kennedy School) lay out how China is, at least on some metrics, **winning in the ‘innovation sectors’**. Drawing upon a study by the Australian Strategic Policy Institute, an independent think tank funded by the Australian Department of Defense, they show that:

“the United States led China in 60 of 64 frontier technologies, such as A.I. and cryptography, between 2003 and 2007, while China led the United States in just three. In the most recent report, covering 2019 through 2023, the rankings were flipped on their head. China led in 57 of 64 key technologies, and the United States held the lead in only seven.”

Source: NYT article, 14th July 2025, as referenced above.

Original source: Australian Strategic Policy Institute, 28th August 2024,
<https://www.aspi.org.au/report/aspi-two-decade-critical-technology-tracker/#executive-summary>

Given China already dominates global industrial production and global exports (with China accounting for 14.6% of global exports vs. USA with an 8.6% share – chart 1), and given that these new technologies are likely to dominate future industrial output, China’s current lead (see chart 2) is a significant challenge for Western economies (from a structural, long term perspective).

In the words of the authors:

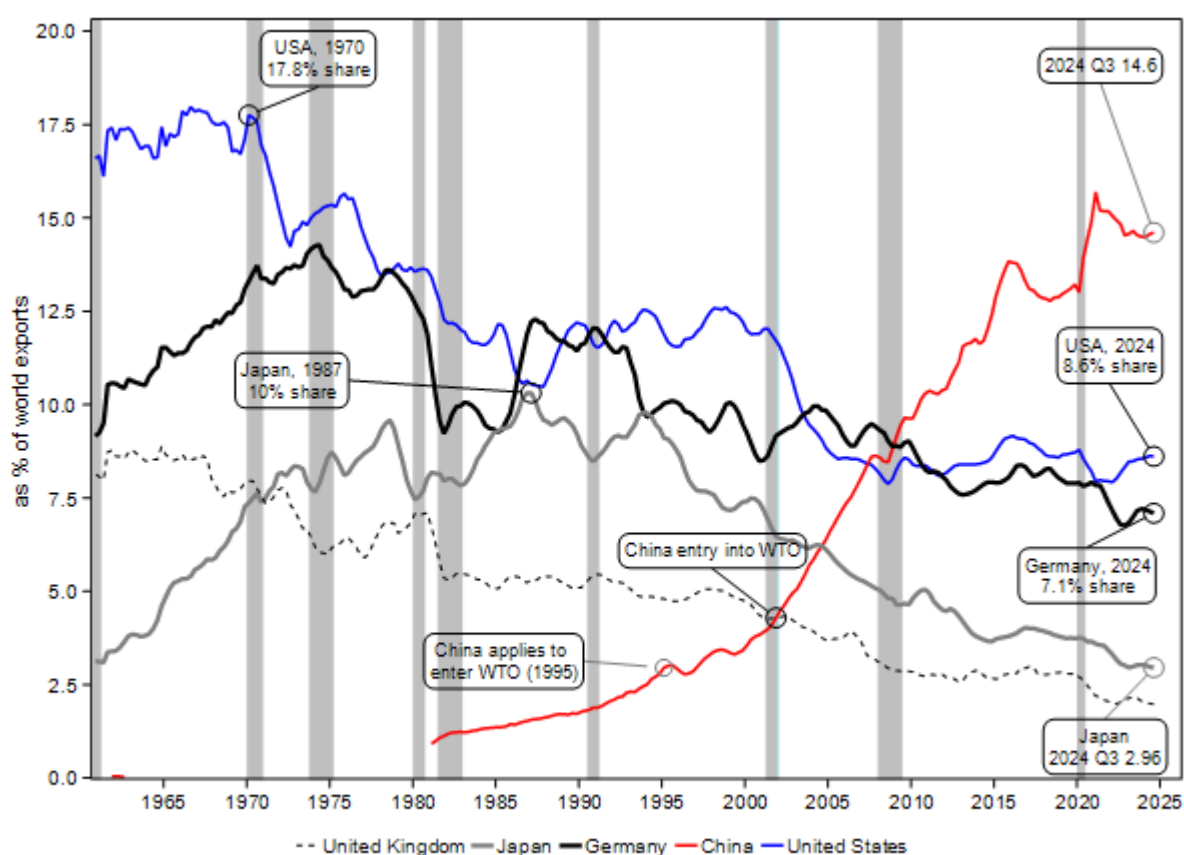
“China Shock 2.0, the one that’s fast approaching, is where China goes from underdog to favorite. Today, it is aggressively contesting the innovative sectors where the United States has long been the unquestioned leader: Aviation, A.I., telecommunications, microprocessors, robotics, nuclear and fusion power, quantum computing, biotech and pharma, solar, batteries. Owning these sectors yields dividends: economic spoils from high profits and high-wage jobs; geopolitical heft from shaping the technological frontier; and military prowess from controlling the battlefield. General Motors, Boeing and Intel are American national champions, but they’ve all seen better days and we’re going to miss them if they’re gone.

China's technological vision is already reordering governments and markets in Africa, Latin America, Southeast Asia and increasingly Eastern Europe. Expect this influence to grow as the United States retreats into an isolationist MAGAsphere."

Clearly studying, understanding and forecasting how this plays out will be critical for understanding the shape of the future. For now, though, China remains cyclically challenged and in a long term balance sheet recession, i.e. in a deleveraging phase (albeit with some current 'cyclical' green shoots).

For further analysis of our cyclical Chinese macro views, see our latest China Global Macro report (published 12th June 2025 "China's Policy Engine: Revving Up; A.k.a. Not Out Of The Woods, But..." - available to subscribers).

Chart 1: Global exports shares → various countries (% of total): 1960 to present



Source: Longview Economics, Macrobond

Chart 2: Rank and share of the world's most cited research in each field, by country

In cutting-edge research, China often beats the U.S. by a substantial margin

Rank and share of the world's most cited research in each field, by country

ELECTRIC BATTERIES (2023)



A.I. ALGORITHMS AND HARDWARE ACCELERATORS (2023)



ADVANCED OPTICAL COMMUNICATION (2023)



ADVANCED MAGNETS AND SUPERCONDUCTORS (2023)



MACHINE LEARNING (2023)



QUANTUM SENSORS (2023)



ADVANCED INTEGRATED CIRCUIT DESIGN AND FABRICATION (2023)



ADVERSARIAL A.I. (2023)



NATURAL LANGUAGE PROCESSING (2023)



HIGH PERFORMANCE COMPUTING (2023)



QUANTUM COMPUTING (2023)



Source: Australian Strategic Policy Institute