

## China: When Geopolitics turns into Opportunity<sup>1</sup>

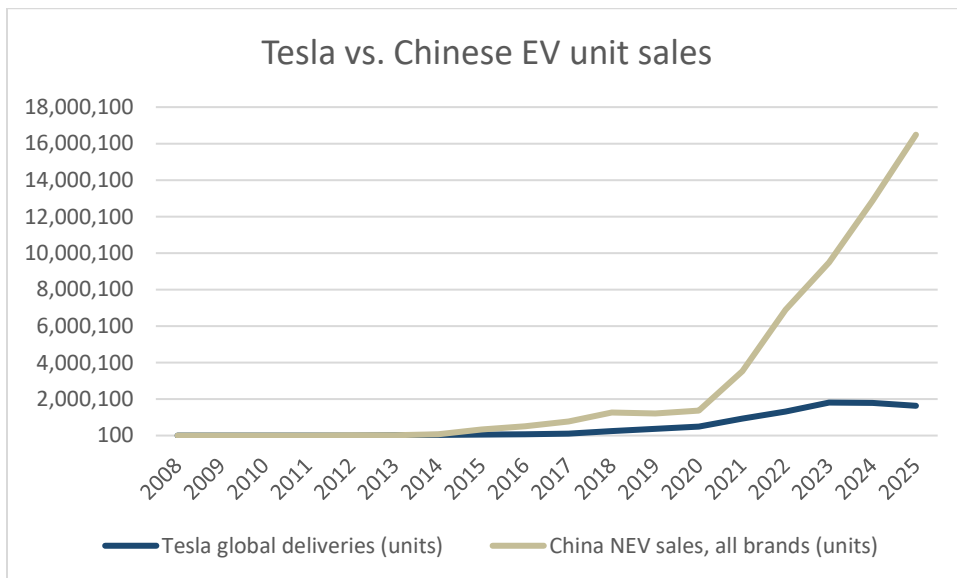
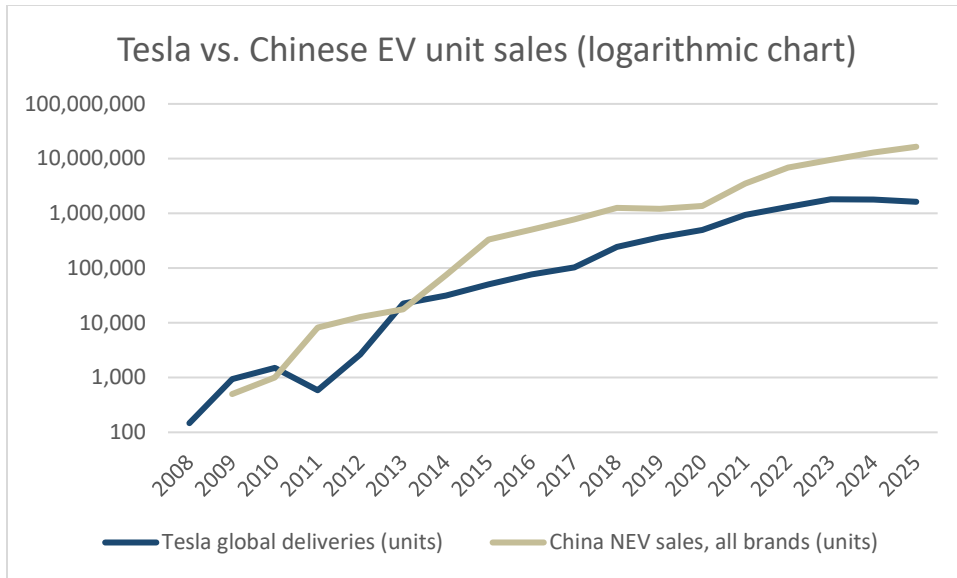
Over the last week, I visited 8 of some of the most important Chinese companies in sectors ranging from AI, rare earths refining/permanent magnets, robotics, energy, internet, smartphones, devices, EVs and banks in Hong Kong, Shenzhen, Shanghai and Beijing. Below is a summary of the main outcomes of that trip.

### How Elon Musk reshapes the next industry in China

The key takeaway from the trip was that the US and China are intertwined in a way that makes the success of each country dependent on the other. And there is no other person who is more important for this success than Elon Musk. Whilst Shenzhen still has a large amount of German luxury vehicle presence, in Shanghai and Beijing the landscape looks entirely different with Chinese EVs dominating the city. I probably spent half of my time inside of a taxi in Beijing, and no matter what the brand was, it always had a similar feeling to sitting in a Tesla. And that is because Elon Musk has built out the entire EV supply chain in China for Tesla, which the Chinese then employed and enlarged to create their own domestic EV brands. The same argument can be made for Apple's iPhone and many other industries, in which China ultimately won the upper hand in terms of volume. Meetings with rare earths and robotics companies revealed that the same is expected for the robotics industry. With the Tesla Optimus due to go into production by the end of this month/August, we are right at the start of this fundamental shift towards the robotics industry. For this reason, I believe that geopolitics is irrelevant, as both nations depend on each other to bring the next innovation to the mass market.

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<sup>1</sup> all assumptions and observations are based on internal modelling and data analysis

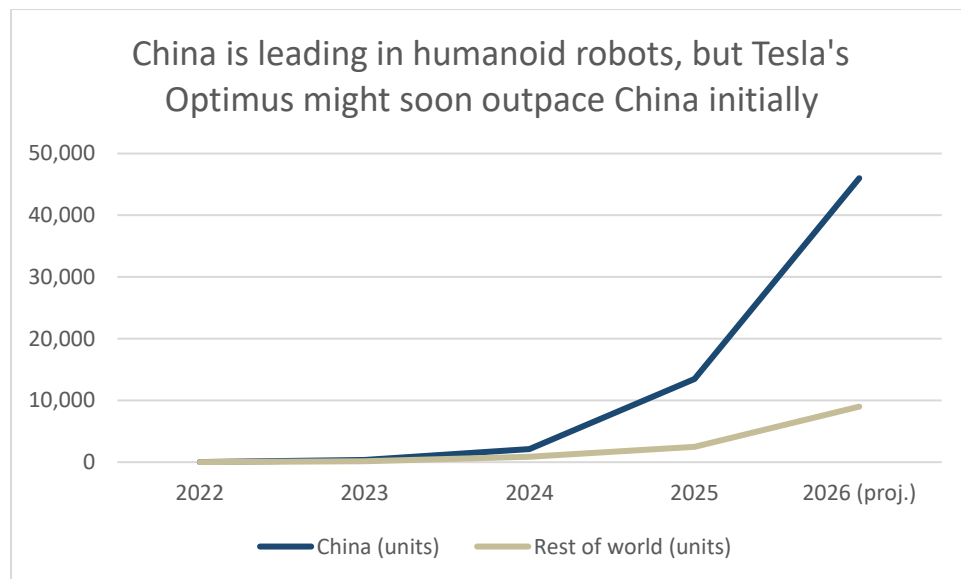


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## China and robotics

Tesla's Optimus has higher requirements in terms of both, hardware and software, compared to the Chinese players. However, the Chinese robotics firm that I met targets to get to 50% of Tesla's Optimus computing power, whilst achieving 100% performance for 50% of the price. This will be achieved by using Chinese chips rather than NVIDIA, as NVIDIA's chip is also used for autonomous vehicles and many other complex applications, i.e. the Chinese reduce costs by narrowing down their chip focus. Whilst the LLMs are good enough to have conversations with the latest robots, the robot company I met flagged that physical AI (i.e. how the robot reacts in a human environment and when changes occur in this environment) is currently the biggest obstacle. Screening products for inspections also remains a difficult task for a robot for now. BYD (1m employees), Foxconn (1.3m employees) and CATL (180k employees) all seek to cut a significant amount of labour, but, so far, this focuses mostly on employees carrying boxes. These firms are planning to purchase 10-20k robots each. In summary, I believe the robotics industry will face the same faith as the EV industry with the Chinese players quickly outselling Tesla within just a few years (Tesla planned to produce as many as 100k robots this year, but they are behind schedule<sup>3</sup>). At the same time, the labour market could face significant losses in factory employment with the emergence of humanoid robots.



Sources<sup>4</sup>

<sup>3</sup> <https://finance.yahoo.com/news/humanoid-robots-global-market-report-153700568.html>

<sup>4</sup> <https://www.roboticscenter.ai/robotics-market-china>, <https://www.scmp.com/tech/big-tech/article/3340142/china-dominates-global-humanoid-robot-market-over-80-installations>, <https://finance.yahoo.com/sectors/technology/articles/china->

## China and AI

China has some key competitive advantages when it comes to the AI build-out compared to the US:

1. The data centers are not often built by Alibaba, Tencent, Baidu, etc. in China. Land is owned by the government, and the majority government-owned telecoms are building most of the data centers. They are then leasing them back to Chinese tech companies for a low price
2. Energy is cheap and abundant. One company emphasized this to me: Energy is basically free in China, because of massive solar farms and other renewable built out that is supplied at very low prices
3. As China does not have access to all NVIDIA chips, the companies rely on domestic supply, which is cheaper, but limits them to create models for specific purposes, rather than all-around LLMs that can do everything at once. This again provides China with a large cost advantage despite being at a disadvantage

Overall, this gives China a massive cost advantage, but the country will not be able to match the same performance as US AI models. However, at the same time, in China the telcos are charging datacenter usage by actual usage (“tokens”) in the same way as you pay for GB for your 5G mobile phone network compared to a subscription charge for Claude or ChatGPT in the US. Because of NVIDIA’s export restrictions to China, there is a shortage of high-quality chips, which has started driving up chip’s rental prices<sup>5</sup>. The Chinese therefore have a high incentive to move towards domestic chips, which is happening and expected to double from the current 35%<sup>6</sup> to 70% this year<sup>7</sup>.

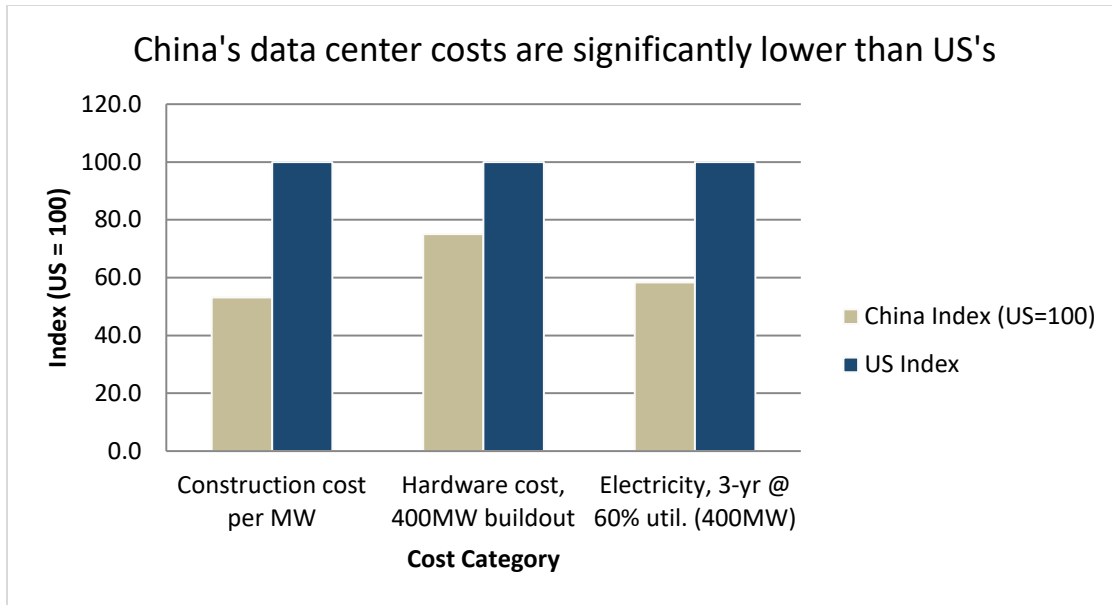
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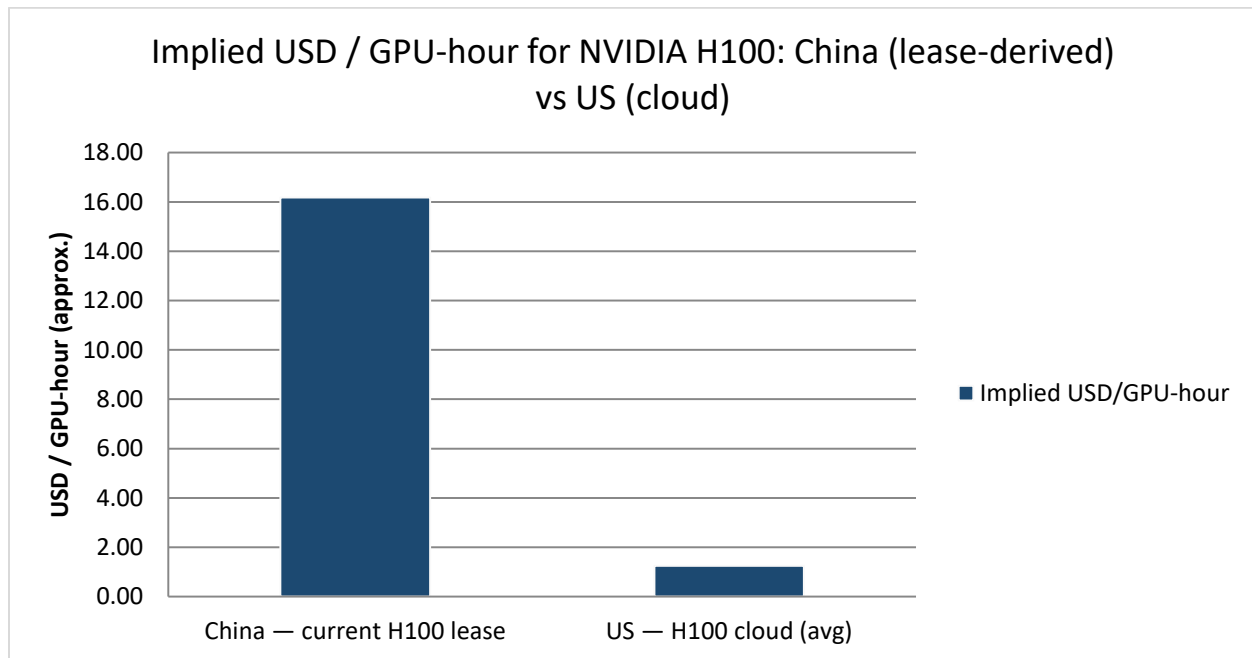
<sup>5</sup> <https://www.trendforce.com/news/2026/04/17/news-nvidia-h100-rentals-in-china-reportedly-up-20-30-as-token-demand-surges-h-series-also-rises/>

<sup>6</sup> <https://bits-chips.com/article/chinas-chip-industry-uses-35-percent-domestically-sourced-equipment/>

<sup>7</sup> <https://asia.nikkei.com/business/china-tech/exclusive-china-targets-70-advanced-domestic-silicon-wafer-use-by-2026>



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<sup>9</sup> <https://www.trendforce.com/news/2026/04/17/news-nvidia-h100-rentals-in-china-reportedly-up-20-30-as-token-demand-surges-h-series-also-rises/>, <https://www.thundercompute.com/blog/ai-gpu-rental-market-trends>, <https://intuitionlabs.ai/articles/nvidia-ai-gpu-pricing-guide> (based on early 2026 figures, using \$/RMB 7.2)

## China and rare earths

The rare earths high-end magnet refiners are concentrated in just a few companies in China, namely JL MAG (35k tonnes production, expanding to 70k tonnes), Zhongke Sanhuan (30k tonnes production), Ningbo Yunsheng (15k tonnes production, expanding), two mid-tier players and a few smaller specialty firms. They together control over 94% of sintered permanent magnet global market share<sup>10</sup>. The refining technology is advancing very rapidly. For instance, JL MAG controls over 20% of high-end magnets and focuses on sintered neodymium iron boron (NdFeB) permanent magnets. 30% of their production are rare earths, of which 29% are light rare earths and <1% heavy rare earths. The competitive advantage is achieved by lowering the amount of heavy rare earths in the production process. JL MAG is able to produce one magnet in as little as 10 seconds, whereas competitors require up to 10 minutes. And yet, JL MAG is only 6-12 months ahead of competition. These permanent magnets are used in everything from EVs, air conditioners, wind turbines, robots, fighter jets, etc. but importantly, every magnet is user specified. I.e. you can't use the same magnet that is used in a Tesla for a BYD. This means that when China shuts you out of the supply chain, it is very difficult to find workarounds – you are basically fully dependent on China here. The cost advantage China has over the US is again miles ahead (24x): JL MAG will spend RMB 1bn (\$150m) to expand its production by 20k tonnes, whilst US listed MP Materials is spending \$1.2bn for 7k tonnes.

The cost advantage of Chinese rare earths refiners is ~24x compared to the US's

| Company                   | Capacity added    | Total cost | Cost per tonne of annual capacity |
|---------------------------|-------------------|------------|-----------------------------------|
| MP Materials (10X)        | 7,000 MT magnets  | \$1.2bn    | \$171,000/tonne                   |
| JL MAG (Baotou Phase III) | 20,000 MT magnets | \$150m     | \$7,500/tonne                     |

Sources<sup>11</sup>

<sup>10</sup> <https://www.iea.org/commentaries/with-new-export-controls-on-critical-minerals-supply-concentration-risks-become-reality>

<sup>11</sup> <https://fas.org/publication/unpacking-dod-and-mp-partnership/>, <https://investors.mpmaterials.com/investor-news/news-details/2025/MP-Materials-Announces-Transformational-Public-Private-Partnership-with-the-Department-of-Defense-to-Accelerate-U-S--Rare-Earth-Magnet-Independence/default.aspx>, <https://jlmag-innovation.com/announcement-by-jlmag-regarding-the-construction-of-a-green-intelligent-manufacturing-project-with-an-annual-output-of-20000-tons-of-high-performance-rare-earth-permanent-magnet-materials-in-baotou-6901/company-news/>, <https://www.yicaglobal.com/news/chinas-jl-mag-to-build-usd1436-million-rare-earth-magnetic-materials-plant-as-demand-soars>

## Some personal thoughts

Before I headed to China I thought I'd never invest in China given the Communist government. However, the country really surprised me in various ways. For one, it is extremely easy to do business in China. It felt very foreigner friendly, in every hotel I stayed at I received an upgrade, people are generally very uncomplicated and easy to deal with. Throughout the meetings one thing became clear though: Consumption is very weak. Some people mentioned that the Chinese consumer links their wealth to their property, which has been declining in value since 2022 (-15% last year, expected to decline by -8% this year and -6% next year – still bad, but leveling out). When a borrower stops paying the mortgage back in China, they are also not in default but are rather limited in what they can spend money on (i.e. no 1<sup>st</sup> class train tickets, no airline tickets). This uncertain consumer environment is widespread. For instance, Xiaomi has still not decided on the price of its new SUV amidst concerns about the consumer. Then, when I asked about the South China Sea, the answer was always the same: They felt very strongly that China has a right to expand their territory back to where it was at some point in the past. However, once you take into consideration how the US's big tech firms like Tesla or Apple depend on China's supply chain and how China depends on US's big tech innovation, it becomes clear that this link is unlikely to be broken under Trump (he said himself he doesn't want to become a Herbert Hoover<sup>12</sup>). When I met with one of the largest banks in China, they started talking about the Chinese government's 5yr plan and how they are seeking to increase their wealth management division. This somewhat surprised me given that China is a Communist country, so I asked them how they feel about making the rich, richer. Initially, they avoided the answer, but when I asked again, they simply said that they treat everyone the same, no matter what their net worth is. But given China's demographics and the decline in property wealth, it becomes clear that China needs to prop up the stock market, as pensioners will rely on it. And this is where I see the biggest opportunity: China can no longer not care about the stock market with more people retiring. Chinese equities could finally enter a sustainable bull run, and I believe that the entry point is very attractive now whilst everyone feared the geopolitics.

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<sup>12</sup> <https://www.axios.com/2026/06/22/trump-is-sill-haunted-by-hoovers-failures>

China Construction Bank's loan value by category aligned with China's 5yr plan:

1. Technology Finance (Datacenters, lending to telcos) RMB 5.25trn
2. Green finance (nuclear, electric heavy industry) RMB 6.6trn
3. Inclusive finance (small businesses) RMB 3.83trn
4. Pension finance (asset management) RMB 723bn assets managed by CCB (RMB 2trn custody)
5. Digital finance (fintech) RMB 891bn

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