

China's \$5 trillion credit gap is private credit's biggest untapped opportunity

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The country offers collateral-rich opportunities and uncorrelated cycles, positioning China as private credit's largest—and most complex—market.



Institutional investors are moving away from their traditional reliance on the US private credit market, with the flow of capital increasingly directed toward Asia—particularly China.



"Institutional global allocators have realised that the 'safe harbour' of the US and what was promised by established Western private credit names is seriously in question," Benjamin Fanger, CIO at China-based ShoreVest Partners, told *AsianInvestor*.

Benjamin Fanger
ShoreVest Partners

This shift in sentiment is pushing investors to explore underpenetrated markets that can deliver uncorrelated returns and downside protection.

Steve Alain Lawrence, CIO at Balfour Capital, said the change is showing up in deal structures rather than just headline allocations.

"Global managers are looking beyond the crowded US middle-market toward asset-backed, policy-aligned opportunities across APAC and

China," he said.

Brookfield, for example, has participated in RMB-linked logistics and infrastructure financings with maturities of three to seven years, often structured via offshore SPVs backed by onshore collateral and contracted cash flows. BlackRock has expanded Asia-focused private credit through semi-liquid vehicles targeting mid-teens returns.

"The combination of better entry valuations, shorter duration and structural protection is drawing capital eastward," Lawrence added.

China is emerging as the focal point of this flow.

Fanger described the long-held notion that "China is uninvestable" as misguided.

The scale of the opportunity is striking. China faces a \$5 trillion private credit gap, largely due to Beijing's crackdown on shadow banking, while banks have recognised \$2 trillion in bad loans over the past five years.

"It is the second-largest credit market in the world, almost half of Asia in terms of GDP, and the most underpenetrated private credit market on earth," Fanger said.

However, despite the scale of the opportunity, Fanger expects capital flows into China to be moderate for now as the country is "the hardest to establish a true onshore presence and experience navigating".



*Steve Alain Lawrence
Balfour Capital Group*

Other Asian markets have benefited from what he described as a "China allergy," with elevated private credit flows compressing spreads and weakening protections—mirroring trends developing in the US and elsewhere.

Yet China's private credit market often runs on a completely different cycle, making it uncorrelated with global trends.

"Its uncorrelated nature makes China an attractive counterweight in terms of risk diversification," Fanger said.

Lawrence sees strong promise in short-duration, asset-secured transactions where banks are retrenching.

"China's manufacturing, EV supply chain, logistics and infrastructure sectors generate large volumes of collateral-rich financing needs that

are well suited to private credit," he said.

Equipment-backed and receivables-based loans, often executed alongside major Chinese banks, typically run 12–36 months, amortise, and are secured by hard assets or contracted receivables.

Sovereign and pension investors, including Middle Eastern institutions, are accessing these opportunities through co-lending and structured credit vehicles, targeting low-teens net returns with limited duration risk.

"The opportunity is real, but it is fundamentally a structured-credit story," Lawrence said.

Still, barriers to entry remain formidable.

"Larger global brand names have an abysmally poor track record in the country, rushing in when the herd does and deal terms are at their worst, and then exiting when they realise it's hard to establish a real local platform," Fanger said.

The biggest challenges are enforcement, transparency, policy sensitivity and liquidity management, according to Lawrence.

Successful investors, he said, address these through structure rather than macro calls, with strategies emphasising short to medium duration, hard collateral or contracted cash flows, offshore documentation with onshore security packages, and limited FX exposure via RMB-linked structures. Deals increasingly include covenants, cash sweeps, and early amortisation triggers, with defined exit paths.

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