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CAPITAL MANAGEMENT

ALTERNATIVE THINKING ABOUT INVESTMENTS

New Asia Perspectives



Welcome to Morgan Creek's New Asia Perspectives, an open forum where we share our proprietary research together with curated articles of interest. We seek to offer a variant interpretation of important political and economic events through an Asian lens by leveraging our team's "on the ground" insights and decades-long experience in covering the region. We disseminate our research through newsletters, webinars and periodic whitepapers. Feel free to forward our research to colleagues you think might be interested and please share any interesting research you come across as well. To offer comments, share research, or learn more about our team and investment offerings, please email chinateam@morgancreekcapi.com.

Best Regards,

A handwritten signature in black ink that reads "Mark W. Yusko".

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

In recent months, China–U.S. trade relations have again captured the attention of global markets. Rather than taking a position on the policy decisions themselves, this newsletter aims to provide a clear, data-driven view of how Chinese manufacturers and multinational suppliers are reacting to the evolving trade environment, particularly in light of rising tariffs and supply chain realignments.

We will explore five core response strategies, backed by current data and industry developments, to help you understand how resilience is being built across the sector.

Leverage Tariff Exclusions & Exemptions

Many consumer electronics and electric vehicle manufacturers have long relied on China's deeply integrated, cost-effective supply chain. However, many of these same businesses have been planning to diversify their supply chains given increasing political tensions between China and the US. For example, Apple has been strategically diversifying its manufacturing operations to mitigate risks associated with tariffs and geopolitical tensions. While China remains a central hub, the company is expanding its presence in countries like India and Vietnam. Here's an updated overview of Apple's manufacturing distribution as of 2024:

Table 1: Apple's Product Manufacturing Distribution by Country (2024)^{2,3,4}

Product	China	India	Vietnam	Other (e.g. Brazil, U.S.)
iPhone	~85 %	~15 %	≈ 0 %	<< 1 %
AirPods	≈ 20 %	<< 5 %	≈ 65 %	≈ 10 %
iPad & Watch	≈ 60 %	<< 5 %	≈ 20 %	≈ 15 %
MacBook	≈ 80 %	<< 5 %	≈ 5 %	≈ 10 %

Many companies have been temporarily granted tariff exemptions or deferments on certain imports to prevent a sudden surge in prices for China-made goods entering the U.S. This approach provides short-term relief, allowing businesses to adjust their global supply chains without causing product shortages or significant consumer cost increases.

Simultaneously, China continues to serve as a critical manufacturing base for non-U.S. markets. This regional production focus is supported by China's highly developed logistics infrastructure, labor specialization, and deep supplier integration—structural advantages that will likely remain difficult to replicate elsewhere in the near term. Employing a transshipment hub seems to be an effective strategy in the near term for a Chinese enterprise to defend against cost increases and to maintain its competitive advantage in the global market,

Employ “Transshipment Hubs” or Manufacturing diversification?

Transshipment hubs have emerged as a response to tariff differentials exceeding 20% points. By routing goods through countries such as Vietnam, Mexico, or Malaysia—often via bonded warehouses—businesses can reduce net duties by up to 15–20% per shipment. Ongoing Vietnam–U.S. trade negotiations aim to establish more favorable bilateral rates, while Mexico is actively expanding its export-processing zones under the United States-Mexico-Canada Agreement (USMCA) framework. Chinese enterprises have strategically chosen these countries to diversify their manufacturing bases and mitigate tariff exposure.

For example, in March 2025, President Trump further increased tariffs on Chinese aluminum products from 10% to 25% and broadened the list of affected items, removing previous exemptions for certain countries.⁵ Despite the continued tariff pressure, domestic primary aluminum exports in China reached approximately 13,700 mt in April 2025, up 54.6% month over month, and 643.0% year over year (YoY).⁶ Cumulatively, from January to April 2025, primary aluminum exports were approximately 34,500 mt, up close to 140% YoY.⁷

To mitigate the impact of elevated tariffs, many Chinese companies have adapted by exporting aluminum products to third countries such as Vietnam. In Vietnam, Chinese aluminum is utilized in local construction and domestic manufacturing. Meanwhile, aluminum projects that are genuinely manufactured in Vietnam are exported to the U.S., complying with trade regulations and avoiding transshipment.

Simultaneously, countries targeted by Chinese enterprises for overseas expansion are generating substantial new demand. Since 2022, we have observed a significant increase in Chinese enterprises' commitment to major investments in overseas countries. A notable example is BYD, China's leading electric vehicle manufacturer, which has rapidly accelerated its overseas manufacturing deployment since 2023, establishing plants in countries such as Brazil, Thailand, Hungary, and Indonesia.

Table 2: BYD's Overseas Manufacturing Expansion^{8,9,10,11,12}

Country	Initial Year	Committed Amount	Targeting Market
Brazil	2023	\$1.1 billion	Latin American market
Thailand	2023	\$490 million	ASEAN hub
Hungary	2025	\$4.5 billion	European headquarters
Turkey	2026	\$1 billion	European market
Indonesia	2026	\$1.3 billion	Southeast Asia market

This chart indicates that BYD has not positioned the U.S. as its primary market in the short term. However, it is still generating significant demand from Chinese aluminum producers, creating export opportunities for Chinese supply chain enterprises.

These developments reflect China's strategic shift towards globalizing its manufacturing capabilities, driven by factors such as tariff considerations, market diversification, and the pursuit of cost efficiencies. As leading Chinese companies like BYD expand their overseas manufacturing networks, they are not only localizing production but also bringing their upstream and downstream supply chains with them, helping to establish fully integrated industrial ecosystems abroad.

This dynamic is generating significant new investment opportunities in emerging markets where demand is growing, and infrastructure is being developed to accommodate this industrial migration.

In our next newsletter, we will explore the three additional strategies Chinese enterprises are using to respond:

- Building Non-Substitutable Product Niches
- Structuring Products to Optimize Tariff Classifications
- Stimulating Domestic Demand Absorption

If you would like to discuss these developments in more depth or explore co-investment opportunities, please don't hesitate to contact us.

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ASIA NEWS SPOTLIGHT

China's Job Market Stable, Urban Unemployment Rate at 5.2% in H1: China's job market has been stable in the first half of the year, with the average surveyed unemployment rate in urban areas around 5.2 percent, according to the latest figures unveiled by the National Bureau of Statistics on Tuesday. The NBS said that specifically in June, the urban surveyed unemployment rate was 5 percent, pulling even with that in May. The number was also 5 percent in June in the nation's 31 major cities, including Beijing and Shanghai. [Read More.](#)

China Able to Keep Yuan Stable with Fluctuations Within a Reasonable Range Despite Dollar's Uncertainty - Central Bank: The yuan has "solid foundations" to remain basically stable with fluctuations within a reasonable range, even as the outlook for the US dollar stays

clouded, said Zou Lan, a deputy governor of the People's Bank of China, on Monday. Zou made the remarks at a State Council press briefing on the first-half monetary and credit conditions, in response to a question about the yuan's current exchange rate. [Read More.](#)

China Delivers its First Intelligent Ocean Research Vessel in Shanghai: China's first intelligent ocean-class scientific research vessel, named Tongji, was officially delivered in Shanghai on Sunday, according to China Central Television and China Media Group reports. The new vessel is designed for both scientific research and offshore engineering support, and will be operated by Tongji University. The vessel was built by CSSC Huangpu Wenchong Shipbuilding Company Limited, a part of China State Shipbuilding Corporation, and was designed and constructed entirely by Chinese engineers. The construction began in April 2024, and it successfully completed comprehensive sea trials in May. [Read More.](#)

China's Exports Growth Tops Expectations in June; Rare Earth Shipments Surge 60% to Record High: China's exports growth beat expectations in June, buoyed by robust shipments to non-U.S. markets and as a temporary reprieve from U.S. tariffs helped slow the decline in goods sent to America. Exports jumped 5.8% in June in U.S. dollar terms from a year earlier, customs data showed Monday, exceeding Reuters' poll estimates of a 5% rise. [Read More.](#)

China's Oil Sector Breaks New Ground with Export of Deepwater Suction Anchors to Brazil: China's oil and gas industry has passed a fresh milestone in its push to become a leading exporter of advanced offshore drilling equipment, as a state-owned company made its first delivery of a new kind of deep-sea suction anchor to Brazil. The 24 suction caissons – which are capable of operating at depths of up to 2,000 metres – will be used to secure platforms at the Mero ultra-deepwater oilfield off Brazil's southeastern coastline, Chinese state broadcaster CCTV reported on Sunday. [Read More.](#)

¹The Bund is a historic waterfront area in central Shanghai, where Morgan Creek's office is located. From the 1860s to the 1930s, it was the rich and powerful center of the foreign establishment in Shanghai, operating as a legally protected treaty port. The picture above is part of the historical waterfront.

²Where are iPhones made? What to know about Apple products as US-China tariffs threaten prices; <https://finance.yahoo.co>; April 9th, 2025

³TN: iPhone Capital of India; <https://timesofindia.indiatimes.com>; May 11, 2025

⁴Apple's Production Strategy in Vietnam; <https://www.vietnam-briefing.com>; Jun 25, 2024

⁵Fact Sheet: President Donald J. Trump Restores Section 232 Tariffs; <https://www.whitehouse.gov>; Feb 11, 2025

⁶China's Primary Aluminum Imports Rise in April 2025, While Cumulative Exports Surge Year-on-Year; <https://news.metal.com>; May 20, 2025

⁷China's Primary Aluminum Imports Rise in April 2025, While Cumulative Exports Surge Year-on-Year; <https://news.metal.com>; May 20, 2025

⁸BYD raises expected investment in Bahia plant to R\$5.5bn <https://valorinternational.globo.com/business/news>; Mar 19, 2024

⁹BYD Opens First EV Manufacturing Plant in Thailand; <https://proliance.co.th/byd-opens-first-ev-manufacturing-plant-in-thailand>; Jul 11, 2024

¹⁰Satellite photos show how BYD's massive European factory is taking shape as bring the flight to Tesla; <https://www.businessinsider.com>; Apr 30, 2025

¹¹BYD agrees \$1bn deal to build electric vehicle plant in Turkey; <https://www.ft.com>; Jul 9, 2024

¹²Chinese EV Manufacturer BYD Announces \$1.3 Billion Investment in Indonesia; <https://jakartaglobe.id>; Jan 18, 2024

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