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Deglobalization: Opportunities in China.

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Developed nations are increasingly interested in bringing jobs and manufacturing capabilities back to domestic shores. Given that nearly 30% of the world's manufactured goods are produced in China[1], a global homecoming could have a detrimental effect on the country's economic growth. Add in the threat of geopolitics hindering the global supply chain, many investors are questioning the value of investing in China. At SEI, we see more than a billion reasons to invest there.

Deglobalization has already begun to lead to a less connected world. Rising nationalism, global supply-chain disruption stemming from the COVID-19 pandemic, and geopolitical tensions have caused many consumers to look for locally sourced goods and services. Investors, it seems, have been no different. At SEI, we have been increasingly asked about the merits of investing outside of developed markets—particularly in China.

Notwithstanding recent challenges brought by the COVID-19 pandemic and slowing economic growth, China is a different story. We continue to view China as a burgeoning economic powerhouse with significance to the rest of the world[2]. What makes China unique? In part, it has 1.4 billion people looking to put their money to work. Even though the population is slowly declining, 1.4 billion people is greater than *all developed markets combined* (Exhibit 1).

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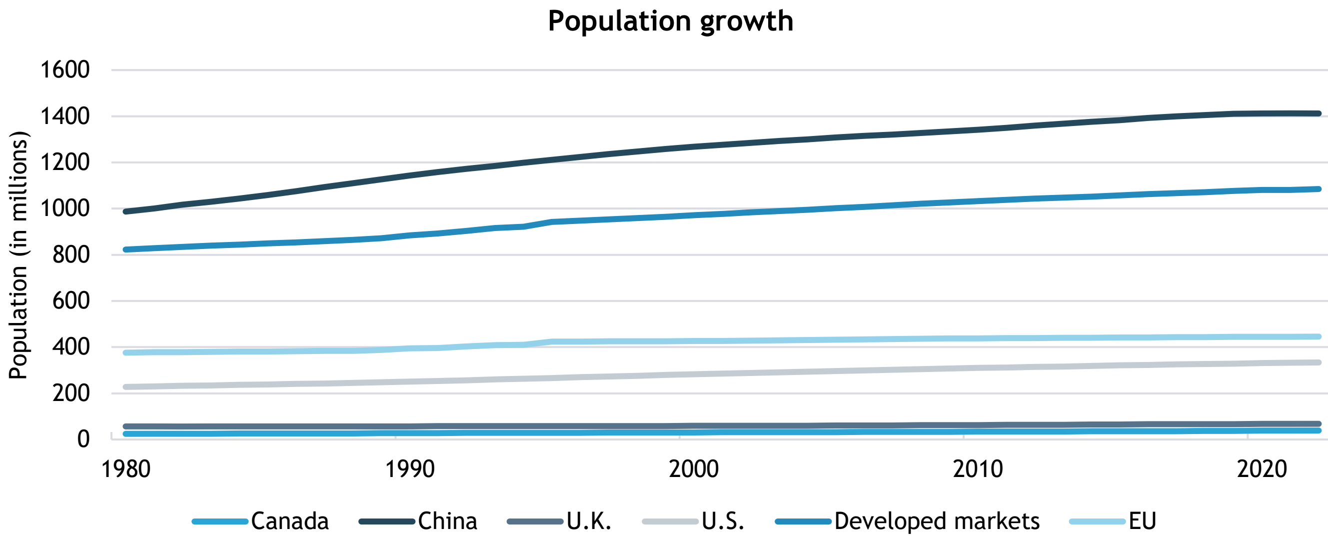
[1] According to data published by the United Nations Statistics Division, China accounted for 28.7 percent of global manufacturing output in 2019. (Statista Market Insights, 2021)
[2] To illustrate, as of January 2023, China is the second-largest holder of U.S. Treasury debt, at $859 billion. (Statista Market Insights, 2023)

Exhibit 1: 1.4 billion reasons to invest in China

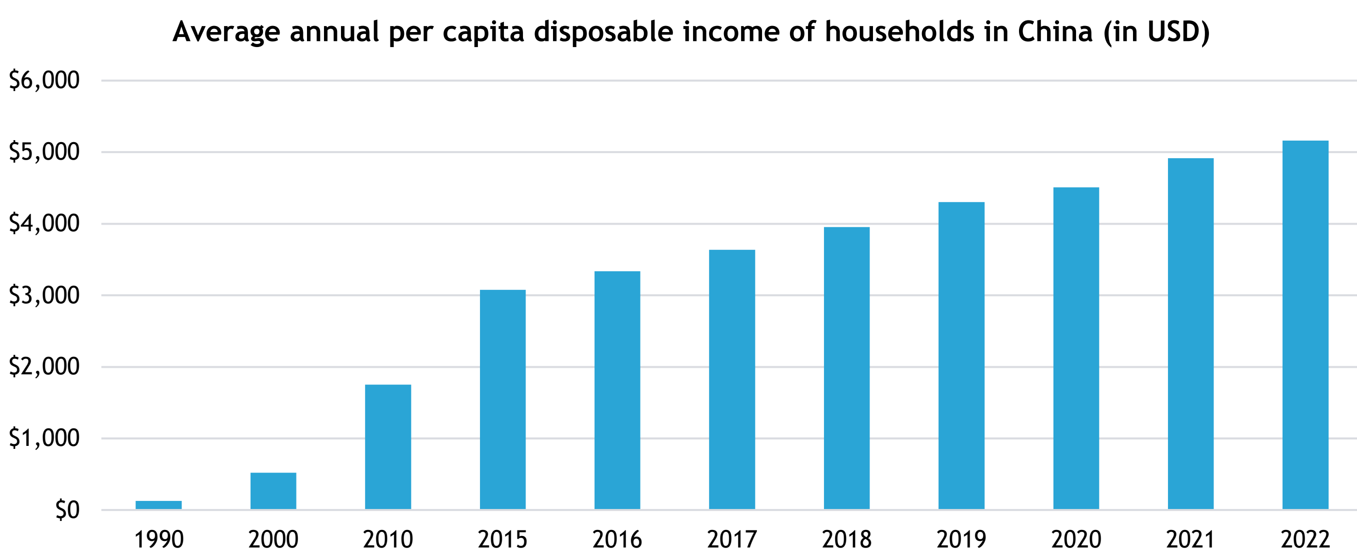


Source: International Monetary Fund. As at December 2022.

Nearly 1.4 billion people spending money

Notwithstanding a striking income gap between urban and rural populations in China, average disposable income per capita has steadily climbed, fueled in part by decades of economic reform and higher home values (Exhibit 2).

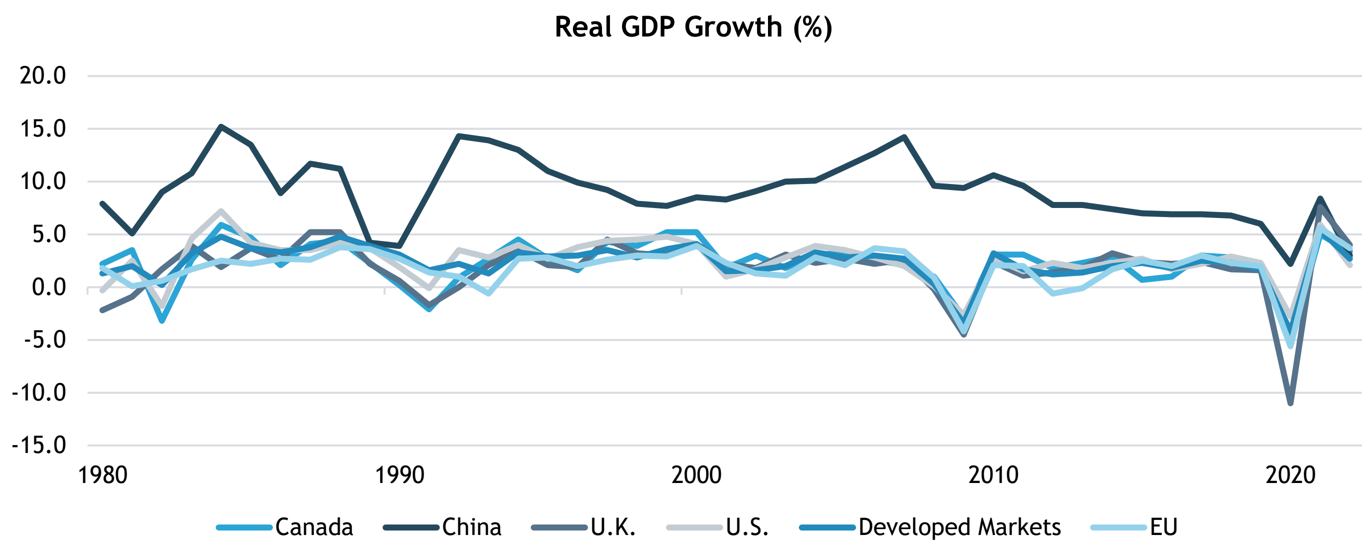
Exhibit 2: Show me the money



Source: Statista Market Insights. As at January 2023.

With more household income available to spend on non-essential goods and services, Chinese consumers are helping to fuel the nation's economic growth. As shown in Exhibit 3, China's real gross domestic product (GDP) growth, a measure of economic activity, has comfortably exceeded the collective GDP growth of all developed markets globally for the last four decades. Even if China's growth rate were to stabilize or slow, it would still be the second largest economy in the world at $18 trillion.

Exhibit 3: China leads global growth



Source: International Monetary Fund. As at December 2022.

Overlooked opportunities

China's relatively elevated average disposable income has generally afforded its people higher quality of life—bringing more demand for luxury goods such as cars, televisions, cell phones, and other discretionary goods and services. While Chinese consumers have demonstrated an affinity for global brands, the data in Exhibits 4, 5, and 6 are examples that domestic Chinese brands are major market players and taking advantage of growing market opportunities.

Exhibit 4: Fully charged electric vehicles market

Electric vehicles (EV) are the future. While Tesla certainly garners most of the attention in North America's market, China-based company BYD has an almost 30% share of the country's EV market (in unit sales) compared to less than 8% for Tesla.

Electric vehicles market			
Rank	**China market share (%)**	**Brand**	**Headquarters**
1	29.6	BYD	China
2	7.2	Wuling	China
3	7.1	Tesla	U.S.

Source: Statista Market Insights, May 2023

Exhibit 5: Sportswear market gaining speed

American sportswear brands Nike and Adidas have long held the largest market share of sportswear in China. Recent years have seen that share erode in favor of local brands such as Li Ning and Anta, which embody Chinese cultural traditions and national pride. In 2022, while Nike held the top spot in Chinese sportswear at 22.6%, local brand Anta Sports secured the second spot (with 20.4 %) and displaced Adidas (at 11.2%). Not far behind was Chinese manufacturer Li Ning, which increased its market share to 10.4%. If this trend persists, local brands will likely capture a bigger market share of a fast growing industry, which may present attractive investment opportunities.

Sportswear market			
Rank	**China market share (%)**	**Brand**	**Headquarters**
1	22.6	Nike	U.S.
2	20.4	Anta	China
3	11.2	Adidas	Germany
4	10.4	Li Ning	China

Source: Statista Market Insights, March 2023

Exhibit 6: Smart TVs on demand

While Japan's Sony along with South Korea's LG and Samsung are customer favorites in North America and Europe for binge watching shows and cheering on their favorite sports teams, the picture is different in China. Domestic brands Xiaomi and Hisense lead the way, with 14% market share each, followed by Skyworth and TCL, which each hold 11% as of 2021. Chinese customers' preference for a more personalized and on-demand digital-media experience has boosted demand for high-quality smart, internet-enabled televisions.

Smart TVs market			
Rank	**Market Share (%)**	**Brand**	**Headquarters**
1	14	Xiaomi	China
2	14	Hisense	China
3	11	Skyworth	China
4	11	TCL	China

Source: Statista Market Insights, September 2022

In a shrinking world, look to diversify

In a world that feels to be getting smaller, China serves as a reminder that there are indeed considerable opportunities across the globe. While investors may have valid concerns about certain countries or industries within emerging markets—including China—this does not undermine the case for holding a strategic allocation to emerging market equities. The asset class continues to enjoy higher growth and attractive relative valuation over its developed peers. Whether it is semiconductors, electric vehicles, or consumer retail, deglobalization will lead to different winners in major economies around the world, and many will likely be local companies. A global portfolio may benefit from not only risk diversification but investment opportunities as well.

Glossary

Developed markets: Countries that are generally stable and have a relatively high level of economic growth. Its capital markets are developed, with a high level of regulation and oversight, a market exchange, and good liquidity in its debt and equity markets. Developed markets are mostly found in North America, Western Europe and Australasia, and include the U.K., U.S., Canada, France, Germany, Italy, Japan and Australia.

Emerging markets: Countries whose financial markets are progressing toward becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body. Typically, these markets are more advanced than Frontier Markets, but less advanced than Developed Markets.

Frontier markets: A pre-emerging market. They are typically small counties with relatively illiquid stock markets composed of thinly traded stocks.

Real Gross Domestic Product (GDP): Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year.

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