

The Great Deflation Reversal – Asia Leads in Pricing Power



Inflation cycles: At the end, one must always start at the beginning

“Inflation is taxation without legislation”

- Milton Friedman

After a generation defined by falling prices and limitless growth assumptions, and with most of today’s fund managers having cut their teeth only on cheap money and disinflation, we have reached the end of a forty-year deflationary cycle and entered a new, multi-decade regime of higher rates and sustained inflation: the era of fiscal dominance. From engineered scarcity to localized supply-chain nationalism, this Special Report distils the theories, cycles, and real-world examples that reveal where, and how to find tomorrow’s price-setting champions.

Special Report
Q2 2025

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Introduction: The End of Cheap Everything

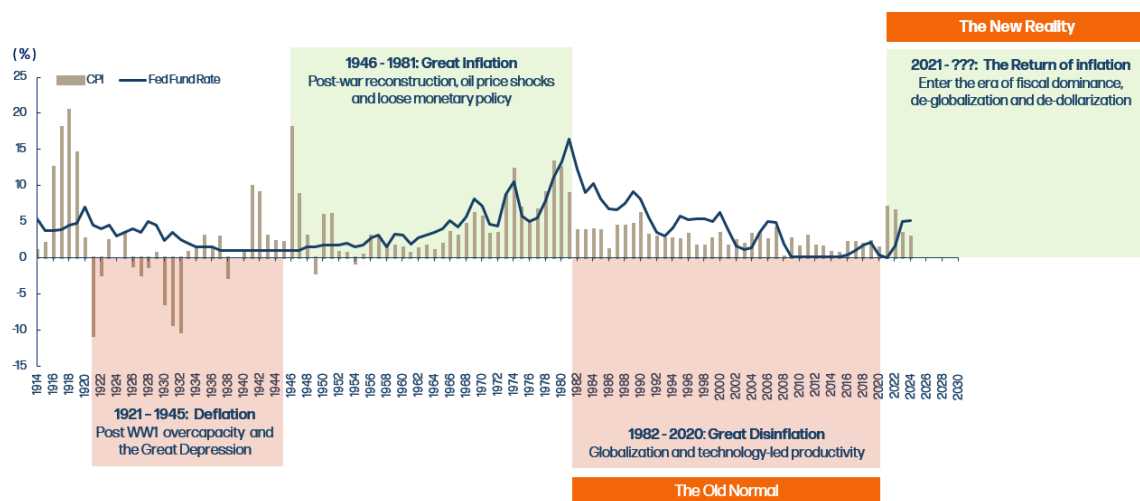
For decades, investors thrived in a world defined by disinflation, falling rates, and globalization. From Paul Volcker's rate shock to China's WTO entry and the Great Disinflation, the system favored asset inflation and margin expansion over rising wages and domestic jobs. But that era has ended. We've entered a new regime—one not driven by efficiency and abundance, but by scarcity, fragmentation, and fiscal dominance.

In this world, most companies suffer from rising input costs and shrinking margins. But a rare breed stands apart: those with the power to set prices. These Pricing Power Equities (PPEs) are not just survivors of inflation—they are its beneficiaries.

This report lays out why pricing power is becoming one of the most important tools in the investing playbook, why Asia is fertile ground for such companies, and how to identify tomorrow's price-setters.

The Great Disinflation: A Cycle Ends

Figure 1: Goodbye to the Old Normal of low rates, we are now entering the New Reality of sticky inflation



Source: Bloomberg

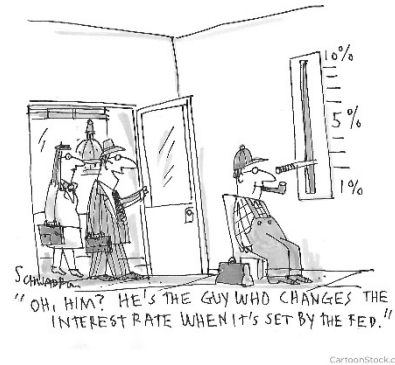
The 1980s began with a bang—Paul Volcker's aggressive interest rate hikes that broke the back of U.S. inflation. As seen in Figure 1 above, what followed was a four-decade stretch of falling rates, stable prices, and expanding globalization. Corporates were able to shift production overseas, benefiting from labor arbitrage while consumers reaped the rewards of cheap imports.

China's entry into the World Trade Organization in 2001 was perhaps the most powerful deflationary force of all. It unleashed a tidal wave of cheap manufacturing that reshaped global cost structures and lulled central banks into believing their inflation-fighting job was mostly done.

The Great Disinflation era was built on five key forces: cheap labor, efficient logistics, central bank credibility, demographic tailwinds, and the technology boom.

As wages stagnated in developed markets, consumers kept spending—helped by falling goods prices and the wealth effect from rising asset values. Meanwhile, advances in computing, automation, and global supply chains quickly boosted productivity without igniting wage inflation.

Central banks, often perceived as precision operators, actually benefited from a remarkably benign macro backdrop: fewer external shocks, a more integrated world, and structural disinflationary forces that made their blunt tools appear sharper than they were.



Markets grew hypersensitive to Fed statements, while volatility remained subdued. The result was a kind of Goldilocks equilibrium—growth and inflation stayed within a narrow band, not because of flawless policy, but because the underlying forces aligned to suppress instability.

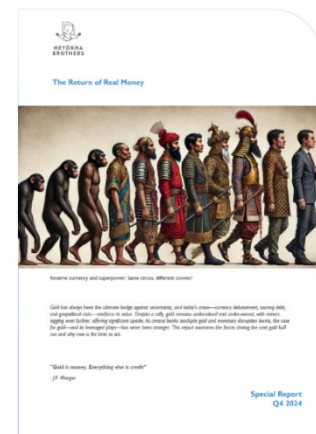
Investors came to see low inflation as a given, and rate cuts as the go-to response in times of trouble. Central banks, for their part, leaned into transparency and rule-based frameworks, reinforcing the sense of stability. But like all good stories, this one ended. COVID-19 exposed the fragility of just-in-time supply chains and the risks of over-optimization.

Governments had to spend—and spend big. At the same time, geopolitics reasserted itself. The U.S.-China rivalry, Russia's invasion of Ukraine, and rising food and energy nationalism shattered the illusion of frictionless globalization.

Monetary policy, too, hit a wall. With debt levels soaring and interest payments threatening fiscal sustainability, central banks were constrained. Inflation surged, but policy rates lagged behind, driving real rates deep into negative territory—not due to complacency, but because aggressive tightening risked destabilizing already overleveraged public finances.

This is the hallmark of fiscal dominance: when monetary policy becomes subordinate to the fiscal needs of the state. The rules have changed. We've shifted from an era of efficiency and abundance to one of constraint, friction, and trade-offs.

This isn't anything new to us. We've written about this in our Q4 2024 special report "Gold – The Return of Real Money". In short, The U.S. is trapped in a debt spiral.



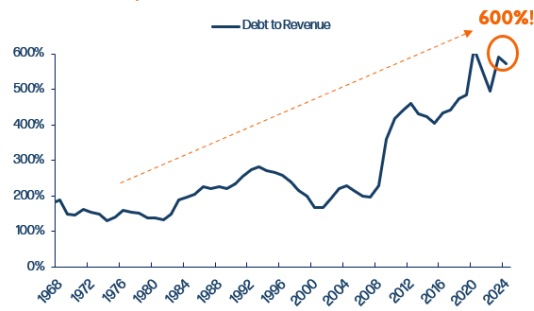
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Looking at Figures 2 and 3 below, federal debt has exploded to nearly 600% of revenues, while 93% of all government income already goes to just two things: entitlements and interest payments.

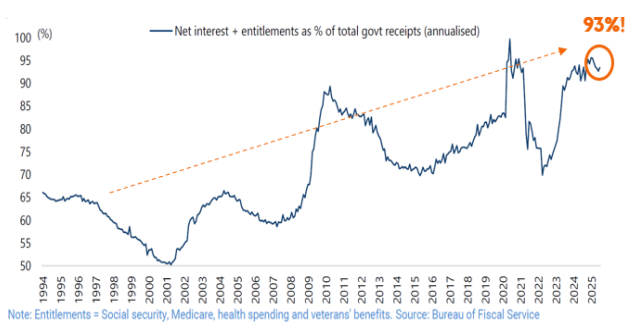
That leaves almost nothing for everything else — forcing more borrowing, which drives more debt, which demands more interest. The endgame? Higher rates demanded by creditors, accelerating the spiral. This is a viscous cycle.

Figure 2 & 3: There is no end in sight for the U.S. debt spiral

Federal debt explodes to 600% of revenue



Net interest + entitlements has already reached 93% of federal revenue



Source: Bloomberg

But here's the real kicker - U.S. can't afford higher rates. As displayed in Figure 4, if average borrowing costs jump to 6%, interest alone swallows 40% of tax revenue. The deficit to GDP would reach 15%! At 9% interest, the math becomes catastrophic. We ran a recession scenario where the U.S. deficit-to-GDP doubles from 6% to 12% (see Figure 5). The outcome is brutally grim: interest payments would consume 158% of tax revenue. That's game over.

The canary in the coal mine? If the Fed cuts to help growth, but long-term yields spike anyway — a hallmark of a reserve currency in distress.

Figures 4 & 5: Paying off just the interest on U.S. debt will quickly deplete U.S. tax revenue. Over 100% of tax revenue will go towards paying back only interest if the U.S. enters a recession!

The U.S. can't hike rates to control inflation; the debt is already too expensive now..

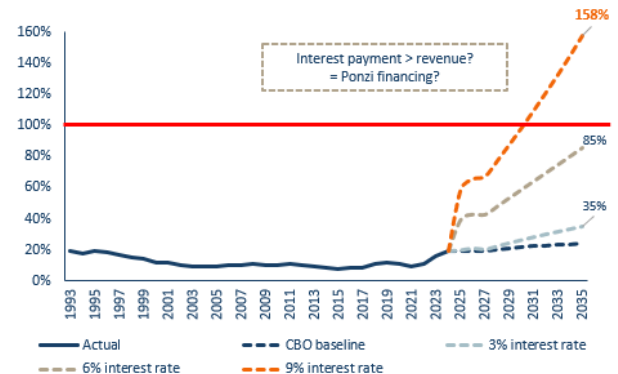
Interest payment % of tax revenue at different rates



Source: Bloomberg

... and it's even worse in a recession scenario

Interest payment % of tax revenue assuming deficit is 12% of GDP



In this environment, traditional playbooks break down as we are entering a structurally inflationary era. The U.S. dollar is showing cracks in its reserve currency status. Passive investing in broad indexes may no longer deliver. Fixed income doesn't offer the ballast it once did. The 60/40 portfolio was built for the Great Deflation. That era is over—and so is its effectiveness.

Instead, investors must look for businesses that not only survive inflation but thrive in it. And that means turning to companies that control pricing and diversifying from an unstable market.

The AI Curveball

AI creates a paradox for investors. On one hand, it is potentially the ultimate deflationary technology: once scaled, it could automate white-collar work, generate digital content at zero marginal cost, and drive massive efficiency gains.

On the other hand, getting there is definitely inflationary. The arms race for AI dominance is pulling forward huge capital cycles:

- Trillions in compute buildouts and semiconductor supply chains.
- Rising costs for electricity, land, and rare earths.
- A bidding war for top AI engineers and researchers.
- Governments underwriting AI security as strategic imperative.



This dynamic means investors face inflationary realities before any possible deflationary benefits.

Open questions remain:

- When might the deflationary tipping point arrive?
- Could the global economy face a stagflationary interlude—high input costs but delayed productivity gains?
- How might geopolitics and protectionism distort the AI cost curve?

For our investors, our conviction remains that, for the foreseeable future, the macro outlook will be driven more by the inflationary forces of the AI arms race than by any eventual deflationary benefits. At the same time, we remain alert to any reversal in this balance.

Asia's Factory is Now Naming Its Price

For years, Asia served as the world's deflationary engine. China exported goods at razor-thin margins, powered by a vast pool of labor and an infrastructure boom. Japan battled chronic deflation, stymied by demographics and a risk-averse policy framework.

Southeast Asia positioned itself as a cost-competitive alternative, offering manufacturers a lower-cost base without the scale of China. These dynamics kept global inflation in check and handed multinationals a golden ticket to margin expansion.

The world is changing. China is no longer the deflationary engine it once was. As it climbs the value chain with rising wages and an evolving demographic landscape, Beijing is reshaping its economic model. Meanwhile, a more competitive China has rattled the West, which now appears more interested in containment than cooperation.



The government is channeling investment into national priorities—particularly in electric vehicles, AI infrastructure, and semiconductors—while increasingly relying on domestic consumption. But with consumer confidence lagging and private enterprise under pressure, the path forward is not linear.

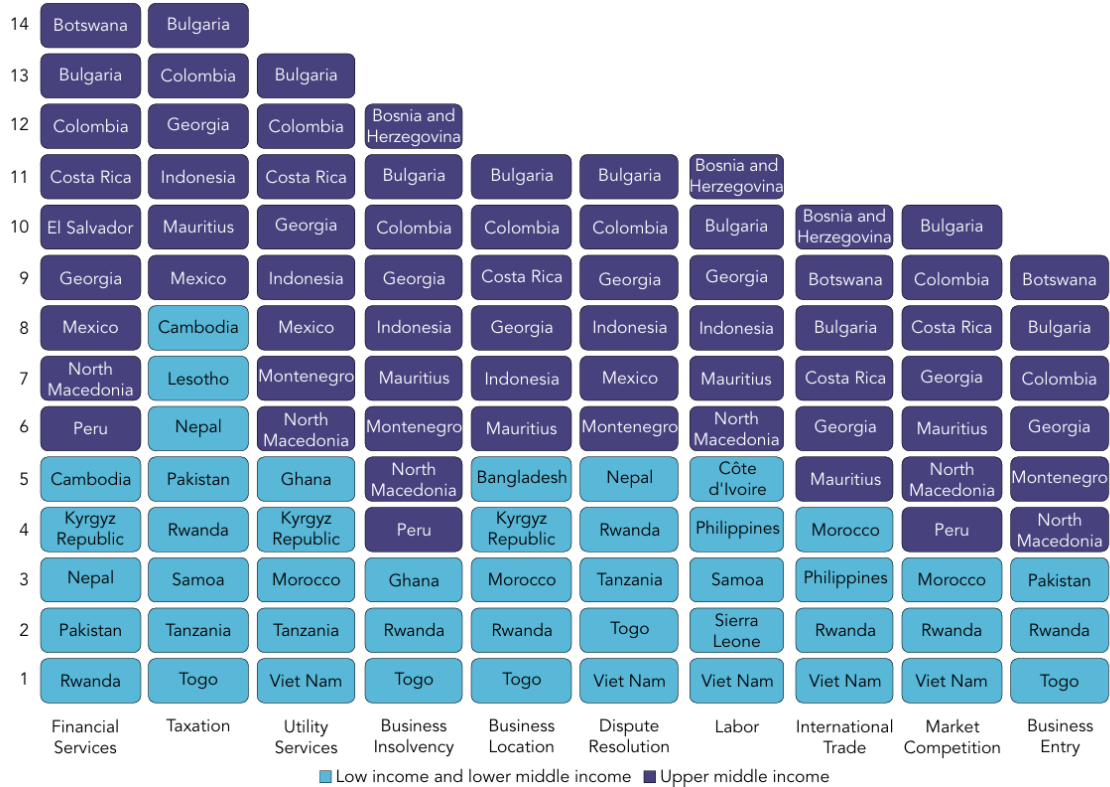
China still makes some of the world's cheapest and most advanced goods—but geopolitical barriers (protectionism at its finest!) are blocking their deflationary impact. In that sense, the era of China freely exporting deflation is over.

Other Asian economies are stepping in to fill the manufacturing gap, but not at the same cost levels. Vietnam, Indonesia, and India are seeing an influx of factory investments, but these are nascent ecosystems. Labor costs are rising. Infrastructure is still developing. As production shifts and re-localizes, frictions appear—ones that introduce new pricing pressures into the system.

Yet these economies are not standing still. According to the World Bank's new B-READY 2024 index seen in Figure 6, even low- and middle-income countries are now ranking among the top two performance quintiles in core business-enabling topics like taxation, market competition, and international trade.

Figure 6: Emerging Asia Is Not Just Cheaper—It's Getting Smarter

Columns represent the 12 key topics that B-Ready evaluates and Y-axis represents the performance bands (quintiles) across each topic with Rank 1 = Top Performance and Rank 14 = Bottom Performance



Note: The sample comprises 50 economies. The income classification data are as of June 2024 to ensure alignment with the latest data collection period.

Source: World Bank Group, B-READY 2024

This growing institutional readiness, paired with rising domestic demand and government-backed industrial policy, positions emerging Asia not just as a source of cheap labor—but as the next wave of price-setters in global supply chains.

Meanwhile, Japan may finally be emerging from its deflationary trap. A weak yen has lifted import prices, wages are stirring after decades of stagnation, and even the Bank of Japan is edging away from yield-curve control. For the first time in a generation, companies are raising prices—and consumers aren't pushing back.

In Indonesia, inflation dynamics are more demand-driven. A youthful, consumption-oriented population combined with strong commodity exports creates a backdrop of rising spending power. At the same time, state policy has focused on industrial downstreaming—transforming raw resources into higher value-added exports. This shift is not only boosting national income but also giving local firms pricing leverage in global markets.

Why Asia is Fertile Ground for Price-Setters

If scarcity grants the power to raise prices, ecosystems create the conditions to make it stick. Asia's tech giants have been quietly building these ecosystems—not just as a growth strategy, but as a defensive moat.

They bundle services, integrate payments, reward loyalty, and optimize user experience to create superapps that are almost impossible to live without. WeChat and Alipay, which pioneered the model in China, positioned themselves early as essential digital infrastructure—handling everything from messaging and payments to shopping and utility bills.

Southeast Asia's Grab and Gojek followed a similar path. By positioning early as ride-hailing platforms, they've since evolved into financial services providers, food delivery networks, and logistics hubs—mirroring the superapp playbook.

They've built multi-sided platforms where users and merchants become increasingly interdependent. Over time, the cost of switching becomes greater than the cost of staying. And that, in turn, grants pricing flexibility. E-commerce platforms like Shopee operates on a similar logic. The more data they collect, the better they can target users. The better the targeting, the higher the conversion.

Layer in fintech, gamification, and vendor support, and suddenly these platforms are not just marketplaces, they're ecosystems. As customer retention improves, so does their ability to push pricing boundaries. These pave the path for stronger network effects, which we delve into in depth in the later chapters below. What's unique about Asia is that much of this growth is happening in a mobile-first environment.

Shenzhen Weekends: A Glimpse into China's Consumer Future

For those of us who call Hong Kong home, weekends in Shenzhen have become a ritual. Several times a year, our friends and us pack up our spouses and kids, book a cross-border super-high-speed train (17 minutes end-to-end!) or and EV 7-seater on Didi, and head north.

The whole trip feels like a holiday to a richer country, except we end up paying less for it. In Shenzhen we eat better, shop better, get spa treatments, and take the kids to insanely cool VR theme parks, all at a fraction of Hong Kong prices.



The entire experience is frictionless. We use WeChat for reservations, Alipay to pay for everything, and never once handle cash. We glide around the city in futuristic looking EVs with built-in massage chairs as standard. What used to feel like a special outing now feels totally routine—and it shows us firsthand how far ahead China is in consumer innovation, lightyears beyond what we're used to and a world away from how it's often portrayed in Western media.

Consumers in China, Indonesia, the Philippines, and Vietnam often leapfrog traditional infrastructure and go straight to digital. The same is true with vehicles. That creates opportunities for firms to shape behavior early—and lock it in before habits become entrenched elsewhere.

Back in Europe, Porsche announced in August 2025 that it is giving up on making its own EV batteries, and in Japan, Toyota doesn't have a pure EV lineup worth mentioning. Meanwhile, Chinese firms like BYD and Xiaomi straddle everything from smartphones, to smart fridges, and EV battery technologies to world class EVs.

This is not a lucky accident. It's by design! Chinese companies are ahead because they are still innovating, while many Western peers have become complacent, hamstrung by bureaucracy, resting on old reputations, and stifled by regulations that punish more than they inspire.

Figure 7: Xiaomi is taking on America's Icons



CHINA ECONOMY

China's Xiaomi claims new phone chip rivals Apple at a cheaper price

Xiaomi Beat Apple. Now It's Taking on Tesla

August 22nd, 2025, 4:00 AM GMT+0700

Chinese smartphone giant Xiaomi succeeded where Apple failed by launching its own electric car. Now, the tech company is betting big on EVs and setting its sights on Tesla. (Source: Bloomberg)

Source: Bloomberg, CNBC

And now, these ecosystems are beginning to find validation not just in user metrics, but in capital markets. Hong Kong's IPO market is roaring back to life, with Chinese tech and consumer-facing firms raising billions in dual and secondary listings.

In the first half of 2025 alone, new listings surged nearly eightfold to over \$17 billion, making it the strongest start since 2021 and putting Hong Kong on track to become the world's largest listing venue this year—surpassing even the Nasdaq.

This IPO revival isn't happening in a vacuum. After years of regulatory uncertainty and risk-off sentiment, Beijing has shifted gears—not only greenlighting more overseas listings but actively encouraging leading mainland firms to tap Hong Kong's deeper, freer pools of capital.

These include some of China’s most prominent ecosystem players and pricing power champions. CATL’s \$5.2 billion listing, the world’s largest IPO so far this year, symbolized that policy alignment.

Others, like BYD, Xiaomi, Mixue, and Guming, have followed suit as part of a broader push for global expansion. Having secured dominance in their home market—the world’s largest and most competitive arena for their respective products—they now enjoy cost advantages that scale like few others can match. The result: they pose an existential threat to their Western rivals, who continue to trail in technology, execution, and—perhaps most unforgivably—innovation.

Figure 8: Renewed surge of interest in investment banking in Hong Kong

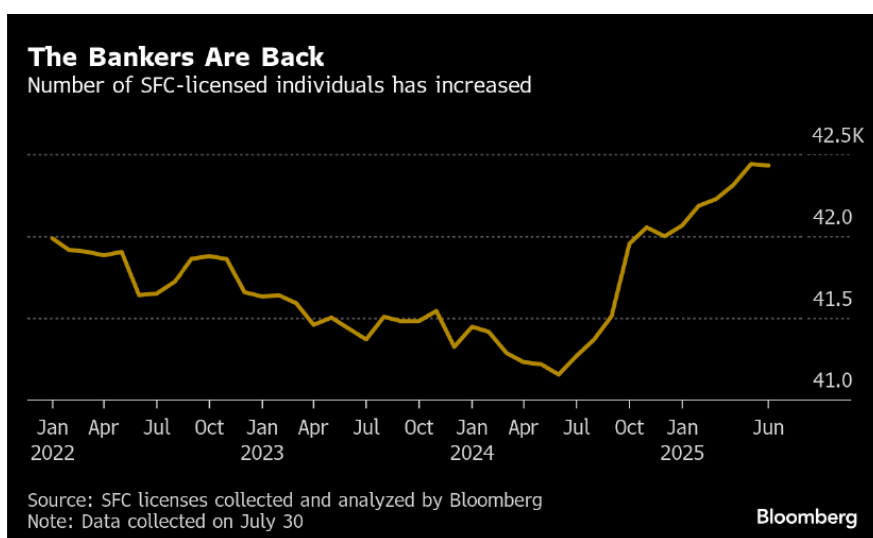


Figure 9: And no wonder – look at the bonus increases!

Average compensation for financial services professionals in Hong Kong, 2024, US\$

Rank	Average Salary, 2024	Average Bonus, 2024	YoY Bonus Change	Average Compensation, 2024
Analyst	\$91.6K	\$33.1K	+11.4%	\$124.7K
Associate	\$73.7K	\$15.9K	+7.2%	\$89.6K
Vice President	\$152.5K	\$31.7K	+16.2%	\$184.2K
Director	\$220.5K	\$173.9K	+102.0%	\$394.4K
Managing Director	\$600.0K	\$200.0K	+50.0%	\$800.0K

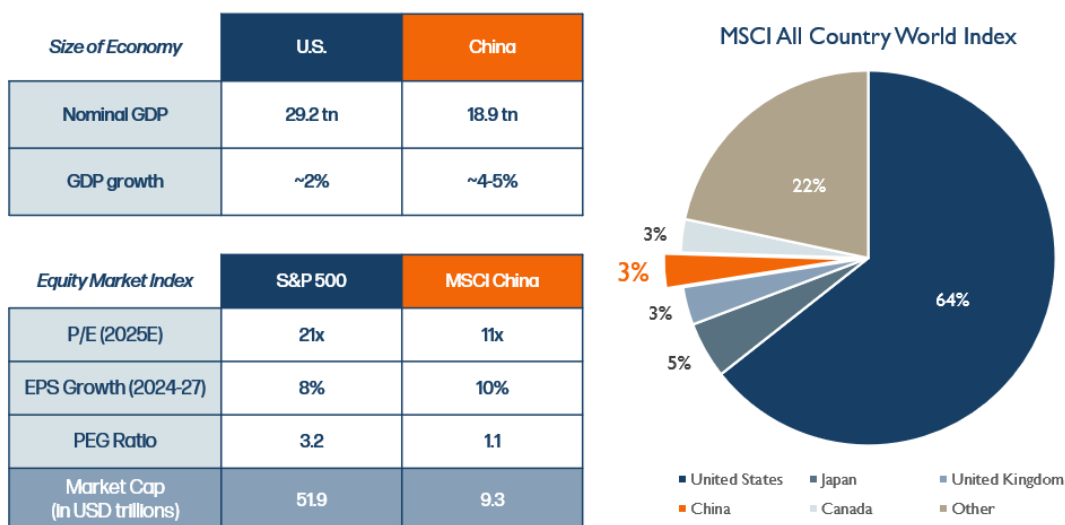
Source: Bloomberg, eFinancialCareers Compensation & Lifestyle Report which surveys 2,500 financial services professionals worldwide (including APAC)

Much of this activity is being driven by “A-to-H” listings, where companies already traded in mainland exchanges now seek a Hong Kong listing to raise offshore capital. More than two-thirds of 2025’s IPO volume has come from these listings, which offer Chinese firms better currency flexibility (HKD is pegged to USD), greater investor reach, and insulation from U.S. delisting risks.

For the most sophisticated ecosystem builders, Hong Kong’s IPO window is more than a liquidity event—it’s a litmus test for global dominance. These firms are using raised capital to scale globally, deepen user moats, and cement pricing leverage through proprietary infrastructure, AI, and supply chain control.

In that sense, the pricing power story in Asia is not just being built through new technologies, mobile apps and loyalty points—but is now being priced into global capital markets, with policymakers cheering from the sidelines.

Figure 10: China has twice the growth compared to the U.S. and yet only represents a meager 3% of MSCI World index



Source: Bloomberg, MSCI

Anatomy of a Pricing Power Company

What does a pricing power company look like in Asia? It doesn’t always wear the same outfit, but the pattern is familiar: irreplaceable offerings, embedded advantages, and moats that make switching costly—or outright impossible.

Some do it through sheer dominance. Others through loyalty, regulation, or mission-critical relevance. But most combine several traits, creating a foundation for sustainable margin control.

- I. First, many pricing power companies thrive despite operating in brutally competitive environments—turning structural complexity into strategic edge.

Take BYD in China. Far from being insulated, it’s competing in the world’s most aggressive EV battleground. What sets BYD apart isn’t just that it builds nearly everything in-house. From batteries to chips to powertrains, but that it does so at unmatched scale and cost. This vertical integration gives it pricing agility. While others bleed margin in a price war, BYD survives—and often wins. Its pricing power lies in its ability to define the terms of competition, not just raise prices.

One of the best examples of this is the fact that in July 2025, BYD's European sales overtook Tesla's, notwithstanding very high import tariffs targeting Chinese EVs. As reported, BYD's EU registrations tripled in July earning 1.1% share vs Tesla's 0.7%.

2. Second, some companies wield pricing power through brand loyalty and ecosystem lock-in.

In Southeast Asia, tech platforms like Grab, Gojek, and Shopee have evolved from apps into everyday infrastructure. Transport, food delivery, e-commerce, payments—everything is bundled, gamified, and tightly integrated.

Users are nudged, rewarded, and increasingly dependent. Over time, switching platforms means giving up convenience, rewards, and routine. And that lock-in becomes monetization power. When platforms turn the dial on take rates or fees, users grumble—but stay.

3. Third, the strongest players can pass through rising costs without losing volume.

Taiwan's TSMC is the classic example. Even when chip demand slows, TSMC raises wafer prices—and customers comply. Why? Because no one else can match its scale, precision, or track record. Its pricing power is not about demand—it's about dominance of capability. Similarly, many Asian manufacturers retain pricing strength not by charging more in good times, but by maintaining margins in volatile ones.

4. Fourth, pricing power shows up in mission-critical services—sectors where demand holds steady regardless of macro shocks.

Indonesia's Telkom is a case in point. It provides essential digital infrastructure to a nation of 280 million. With high fixed costs and low marginal costs, each new subscriber boosts operating leverage. Combined with limited competition and state alignment, Telkom has room to raise rates incrementally without churn—durable, if not flashy, pricing power.

5. Fifth, regulatory and geographic moats can reinforce pricing leverage.

In resource-linked industries like mining and energy, companies benefit from restricted access, permitting barriers, and government-backed control. Indonesia's nickel producers, for instance, have gained global pricing leverage through domestic protectionism. Export bans and quotas create scarcity, forcing foreign buyers to play by Indonesia's rules.

This kind of state-enabled pricing power can reshape not just local dynamics but global ones too, as discussed further below. Ultimately, pricing power in Asia is multidimensional. It can come from market structure, technological edge, policy protection, brand ecosystems, or simply being too essential to ignore. But the outcome is the same: a company that sets the terms, rather than accepts them.

I. The Power of Networks

The ultimate advantage lies in network effects: they lock in users and make prices stick. In Asia's fast-growing, mobile-first digital economy, network effects amplify pricing power into something self-reinforcing—and extremely hard to disrupt.

Consider platforms like Grab, Shopee, or WeChat. Every new user doesn't just increase revenue—they improve the platform's utility for everyone else. More users mean better data, better targeting, and better experiences. Those, in turn, attract more users and vendors. And so the flywheel spins.

It's also why Western giants like Uber, Amazon, and eBay have struggled to crack Asia. By the time they showed up, local players had already locked in users, couriers, merchants, and even regulators. For instance, when Uber tried entering China, Didi Kuaidi, a homegrown Chinese giant backed by Alibaba, Tencent, and WeChat already had around 80-87% of ride hailing market share.

By the time Uber entered Southeast Asia, Grab, a Singaporean first-mover, had already secured around 70% of the market. Unable to unseat the local champion, Uber ultimately conceded defeat, swapping its regional operations in exchange for a 30% stake in Grab. Competing with entrenched ecosystems powered by homegrown network effects is less a matter of innovation, and more a matter of displacing deeply embedded infrastructure—an exceptionally high barrier to entry.

Over time, these platforms become sticky—not just for users, but for merchants, developers, and service providers. Leaving means giving up loyalty rewards, retraining habits, and navigating unfamiliar interfaces. That friction turns into pricing power, not by hiking sticker prices, but by subtly shifting monetization levers: take rates, commissions, featured placements, premium services.

What makes Asia unique is the intensity of this dynamic. Consumers here are younger, more digital-native, and more experimental. They leapfrog legacy systems and go straight to mobile ecosystems. That makes them more susceptible to platform lock-in—and more tolerant of monetization models.

As these networks scale, the price of access increases—not in absolute terms, but in embedded monetization. The value extraction is elegant, not aggressive. But it's real. And it gives these companies a lever most others lack: the power to charge, without asking permission.

II. Scarcity by Design

One of the defining features of the pricing power landscape in Asia is the strategic use of scarcity—not just as a market reality, but as a deliberate business tool. Scarcity is no longer simply about what's rare in nature; it's about what's made to feel rare, engineered to be exclusive, or structurally hard to replicate.

This scarcity—whether real or perceived—is at the core of some of the most resilient pricing models in the region. Luxury brands have long understood this playbook. Take Hermès, for instance. It doesn't cap Birkin bag supply because it lacks production capacity. It does so to maintain mystique and perceived value. The result: a manufactured aura of exclusivity that fuels waitlists, resale markups, and virtually frictionless price increases.

In Asia, Laopu Gold (6181 HK) employs similar strategies—rooted not in hype, but in heritage. These jewellers frame scarcity through generational value: limited-edition heirloom pieces, intricate designs that take months to produce, and symbolic motifs tied to regional tradition.

It's scarcity not just of product—but of meaning and memory. The effect is the same: premium pricing, resilient demand.

In technology, scarcity takes a different shape. It's engineered not through brand psychology, but through technical dominance and capital intensity. Western firms like ASML and Asian giants like TSMC don't need to manufacture exclusivity—it's embedded in the product itself.

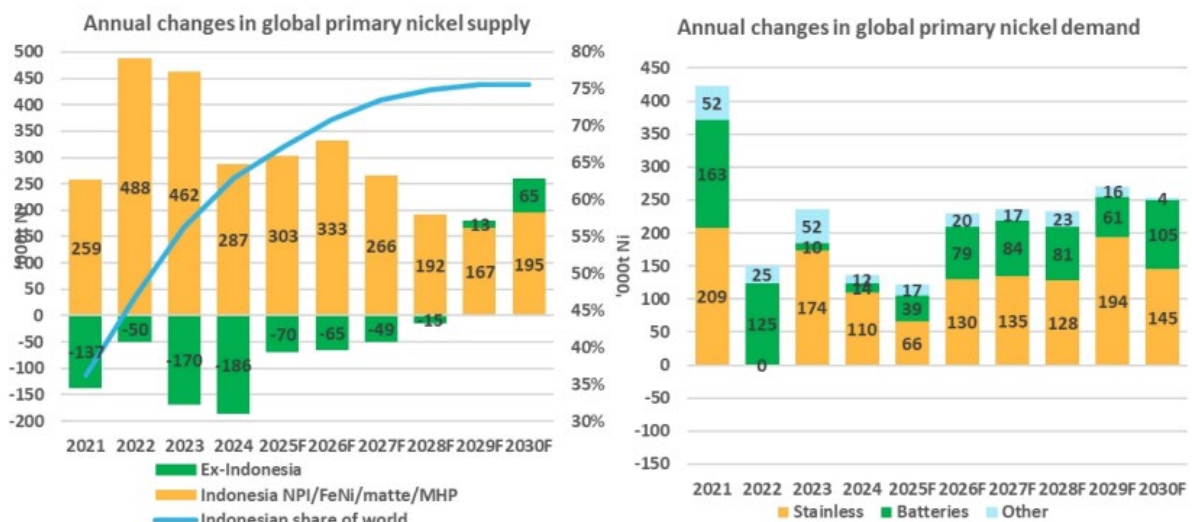
ASML controls the global supply of EUV lithography machines. TSMC dominates advanced chip fabrication. These companies operate in niches where the barriers are enormous, and the alternatives are non-existent. Their pricing power isn't about perception—it's about non-substitutability. They charge what they do because no one else can deliver what they can.

Even digital companies use scarcity—but in behavioral and psychological terms. Limited-time offers, invite-only beta tests, and gamified access are more than marketing gimmicks. These tactics create urgency, exclusivity, and the perception of premium. Scarcity in the digital world becomes a user experience strategy that supports higher pricing or deeper monetization. The value of access increases simply because not everyone can get in easily.

Governments, too, are learning the power of engineered scarcity. Indonesia's nickel export bans are a textbook example as seen in Figure 11. Using regulations to restrict the export of raw materials and forcing downstream processing to occur domestically, the country tightened global supply, raised the value of local processing industries, and gained global leverage.

It's scarcity with a strategy—using national policy to tilt the value chain and re-anchor pricing power at home.

Figure 11: Indonesia dominates nickel supply growth while demand remains steady



Source: INSG, CRU, Macquarie Strategy as of June 2025

Scarcity is not just a supply constraint. It's a feature—built, branded, and enforced. In a world of oversupply and falling margins, it offers a way out. For companies that can manufacture exclusivity—whether through branding, infrastructure, or policy—it becomes the engine of pricing autonomy.

China: From Factory to Price Setter

If Indonesia is using policy and resource leverage to tilt the value chain in its favor, China is doing it at industrial scale. The country that once exported razor-thin-margin goods to the world is now moving up the value chain—fast.

With rising wages, demographic drag, and growing geopolitical friction, Beijing is pivoting from being the world's factory to its command center. The model is no longer low cost; it's high value and has deep control.

BYD: Margin Sacrifice, Market Dominance

BYD, once seen as a fast follower in EVs, has become the benchmark others chase. Its secret? Deep vertical integration. Through its FinDreams ecosystem, BYD produces around 75% of its vehicle components in-house—from batteries (Blade LFP) to chips—yielding a structural cost advantage of roughly 15% over Tesla.

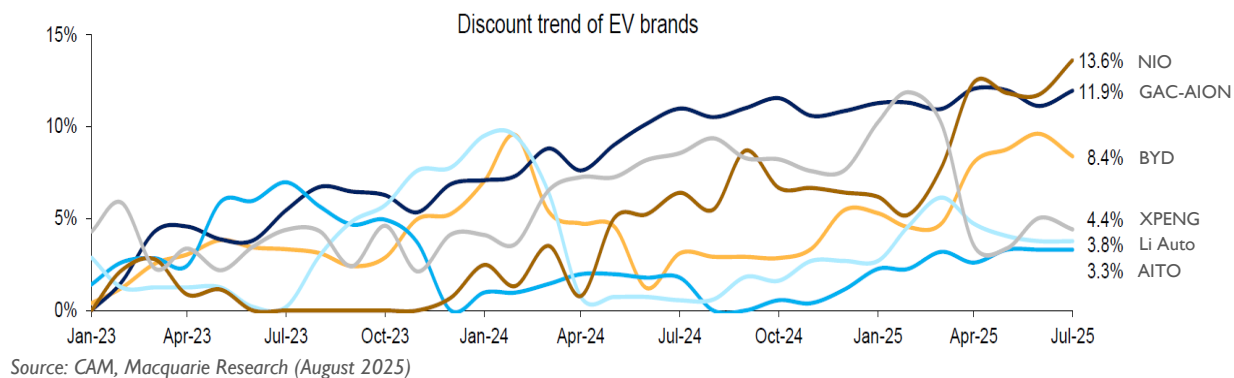
This cost base gives BYD the cushion to slash prices—22 models cut by up to 34%—even at the expense of margins. Gross margin slipped to 16.3% in Q2 2025, down from 20.1% in Q1, while net income fell 29% year-on-year. Net profit per car dropped to RMB 4,800, almost half the levels of Q1. Yet unlike rivals, BYD can absorb this hit: its integration and scale ensure survival where others face red ink. In effect, BYD is trading margin today for market power tomorrow—pressuring weaker competitors into losses or retreat.

Overseas traction, meanwhile, has become the real growth engine. In Q2, overseas wholesale volumes surged 145% year-on-year and 25% quarter-on-quarter, putting BYD on track to exceed 1 million overseas units in 2025—well ahead of its latest 800k guidance. Growth is especially strong in Europe, with Turkey, the UK, and Spain recording gains of over 530% YoY and 61% QoQ, helped by the launch of PHEVs. Importantly, overseas operations are far more profitable, with net profit per vehicle estimated to exceed RMB 25,000—more than five times domestic levels.

Domestically, BYD's EV market share stood at 29.7% in Q2 2025, compared with 34.2% a year earlier but stable versus Q1's 29.1%. Competition is intensifying—Geely and Huawei are bringing ADAS into the sub-RMB 200k mass market—but BYD's proactive product launch strategy is helping defend share.

The bigger story, however, lies abroad. By weaponizing its cost advantage at home while harvesting premium profits overseas, BYD is redefining the economics of the EV industry. Crucially, its overseas success is built on the fact that it emerged as one of the few true winners of the world's most competitive EV battlefield—China's domestic market. Having proven itself against the toughest rivals, BYD is now exporting not just cars, but its dominance.

Figure 18 & 19: BYD maintaining its top spot despite an aggressive discount climate raging in China



	Rank	Company	Jul-25 (k units)	Market Share	Jul-24 (k units)	YoY
	1	BYD	249.5	13.7%	299.2	-17%
	2	Volkswagen	145.8	8.0%	149.0	-2%
	3	Toyota	133.4	7.3%	125.0	7%
	4	Geely Galaxy	90.6	5.0%	24.8	265%
↑ 1	5	Geely	72.4	4.0%	55.3	31%
↓ 1	6	Wuling	72.0	3.9%	60.0	20%
↑ 1	7	Changan	60.4	3.3%	38.7	56%
New	8	Nissan	51.4	2.8%	40.4	27%
↑ 1	9	Chery	47.9	2.6%	43.4	10%
New	10	LeapMotor	45.5	2.5%	22.1	106%

Source: Yiche, CPCA, Macquarie Research (August 2025)

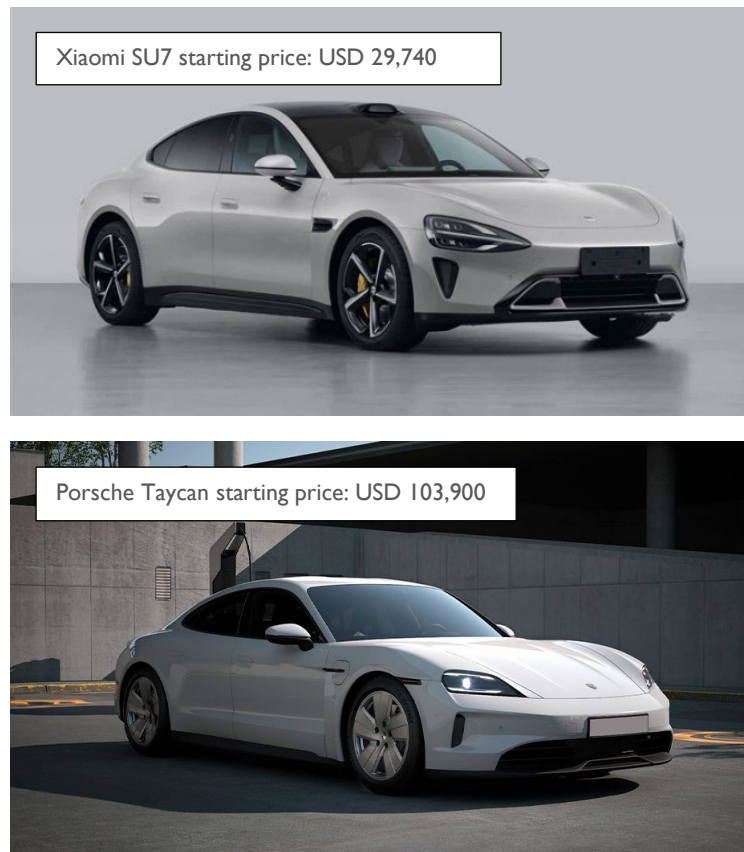
Xiaomi: From Smartphones to Cars

Xiaomi's journey offers another lens into China's transformation. Known globally as a smartphone innovator, Xiaomi has extended its design and manufacturing prowess into a broad portfolio that now includes TVs, appliances, and most notably, electric vehicles. This isn't mission creep—it's strategic convergence.

With the launch of its SU7 electric sedan, Xiaomi is attempting to do to EVs what it did to smartphones: create high-spec, beautifully designed products at disruptive price points. The move wasn't a pivot but a long game—years of ecosystem building, from user interfaces to IoT integration, paved the way. While Western automakers struggle with fragmented digital platforms, Xiaomi enters the EV market with native fluency in software, supply chain discipline, and a user base conditioned to expect more for less.

This evolution also signals a deeper truth: while the West often underestimates China's capacity for reinvention, companies like Xiaomi are proving that innovation isn't confined to Silicon Valley. The complacency of incumbents is being met with ambition, integration, and execution.

Figure 20: Just as sleek as a Porsche, but at a third of the price!



Source: Nürburgring

Ferrari was so impressed by Xiaomi, they bought one!

There was a time when brands like Porsche could command higher prices because they were much better cars—better engineered, faster, more reliable. The price premium was justified by superior performance.

That equation has flipped. Today, it is Chinese cars like Xiaomi's SU7 Ultra that are not only better than Porsche on critical measures—range, technology, connectivity, integration—but also much less expensive. The performance gap has closed, and in some dimensions, reversed.

The most striking symbol of this shift: in July 2025, Ferrari, one of the most prestigious car manufacturers in the world, bought a Xiaomi SU7 Ultra to study and reverse engineer. What was once unthinkable is now reality: the icon of European automotive excellence looking to a Chinese upstart for lessons in how to build the future.

The lesson: heritage no longer guarantees superiority. Innovation and cost discipline now come from China, forcing even the icons of luxury performance to play catch-up.



Xiaomi SU7 Ultra spotted at the Ferrari factory in Maranello, Italy

Policy Power and Strategic Scarcity

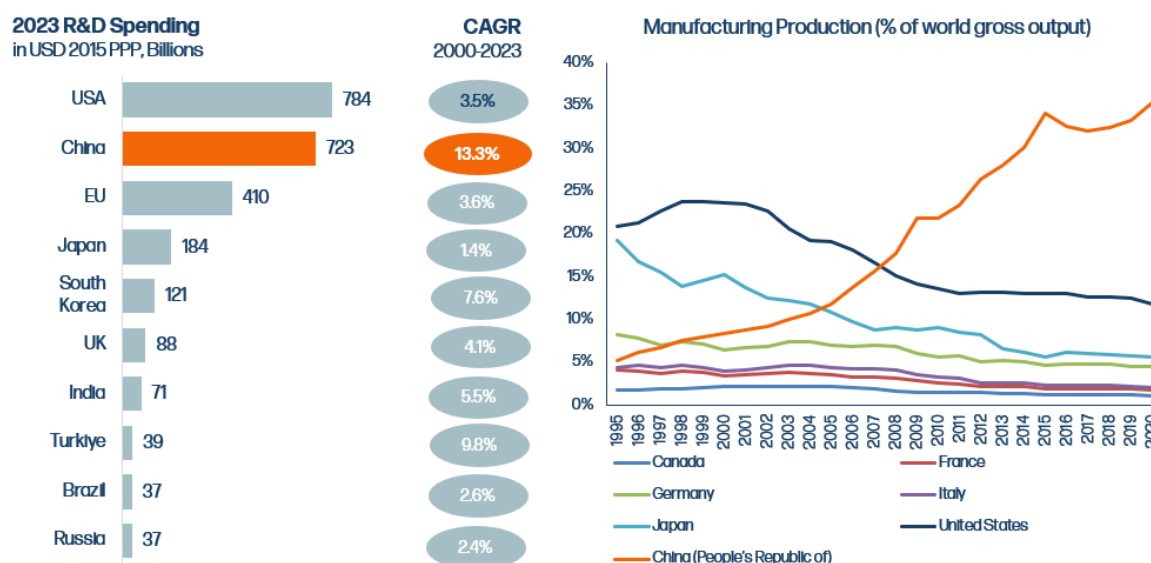
China's government is reinforcing this evolution with deliberate policy. Industrial programs like Made in China 2025 are designed to capture choke points in strategic sectors—semiconductors, green energy, AI infrastructure.

The result is a pricing environment that's increasingly defined not by global competition, but by engineered scarcity: export controls on rare earths, strategic inventory management, and homegrown tech substitution that all shift leverage inward.

This shift doesn't stop at the border. As China climbs the value chain, lower-tier manufacturing spills over into Southeast Asia, but the higher-value, price-setting layers—R&D, design, component monopolies—remain firmly onshore.

In a world reshaped by scarcity, Chinese innovation—aligned with national priorities, backed by vertical integration, and fortified by strategic indispensability—is emerging as a powerful force in setting prices.

Figure 21: China close to surpassing the U.S. in R&D spending and dominates in manufacturing production



Source: WIPO (2024), OECD TIVA database

Strategic Allocation: The Price-Setters Will Inherit the Earth

For investors, pricing power equities (PPEs) in Asia represent a rare duality: defense and offense. They protect margins during inflationary squeezes—and expand them during rebounds. They offer cash flow consistency in volatile macro conditions and compound capital when most others are stuck playing defense.

The key is to stop thinking in traditional style boxes. PPEs span sectors and growth profiles. Some are slow-and-steady compounders—like consumer staples, telcos, or regulated infrastructure.



Others are high-growth disruptors like semiconductor titans, digital platforms, or green tech champions. What unites them isn't size or style—it's the control over pricing. Geographic exposure should be seen through a pricing power lens.

China offers unparalleled scale and policy alignment, with a regulatory environment that continues to adapt to strategic goals.

India offers an alternative, demographic momentum and entrepreneurial verve, yet for now it still lacks the infrastructure and logistics to rival China.

Southeast Asia provides earlier-stage access with network effects still forming.

Korea and Taiwan bring technological edge and supply chain importance. Investing across these markets allows for a diversified pricing power portfolio.

Currency matters—but less than it used to. Many Asian economies now run current account surpluses, hold ample reserves, and operate with credible central banks. While FX volatility remains, local-currency pricing power increasingly offsets dollar-driven shocks. A weak USD even enhances PPE returns in real terms.

Ultimately, the mindset shift is critical. Don't chase what's optically cheap. Chase what's functionally irreplaceable. In a world where everyone is squeezed, the company that gets to name its price doesn't just survive—it leads.

Final Note

The global investment landscape is undergoing a structural transformation. The long era of disinflation, cheap capital, and borderless globalization has given way to a regime defined by scarcity, fiscal dominance, and strategic autonomy. In this environment, most companies will face margin compression as rising costs prove difficult to pass through. Yet a select group stands apart—those with the ability to set prices rather than accept them.

These Pricing Power Equities represent more than a cyclical opportunity. They are a durable investment thesis. Across Asia, we see them emerging in multiple forms: Indonesia's resource-anchored champions, China's vertically integrated leaders, Southeast Asia's network-driven platforms, and Taiwan and Korea's technological gatekeepers. What unites them is not sector or style, but the common attribute of irreplaceability—and with it, the ability to defend and expand margins in an inflationary world.

For investors, the imperative is clear: avoid being drawn to what looks optically inexpensive and instead allocate capital to what is functionally indispensable. In a global economy defined by higher costs and heightened volatility, the companies with the power to name their price will not only endure but lead. Many of those leaders are to be found in Asia.

At Heyokha Brothers, we believe Pricing Power Equities are the next frontier of long-term compounding. They are not a passing theme, but a structural cornerstone of our investment philosophy. The future will not be cheap—but by owning businesses with true pricing power, it can be enduringly valuable.



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