

MORGAN CREEK

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@morgancreekcip.com.

Best Regards,

Handwritten signature of Mark W. Yusko in black ink.

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

US-China tensions and the pandemic have compelled global corporations to pursue supply chain diversification away from China. In 2023, Apple led the pack by announcing its intention to move a significant portion of its manufacturing into India, starting with its low-end phones. Companies were attracted to the Indian government's Production Linked Incentive ("PLI") scheme, launched in 2020 to boost local manufacturing. Approximately \$20 billion² has been earmarked for this overall program, where the government pays manufacturers 6% of a product's invoice price (decreasing to 4% in the fifth year) for every unit produced domestically.³ Manufacturers are also eligible for additional state government tax, power and land subsidies.

How has Indian manufacturing progressed with all these attractive incentives over the past year?

For FY2023, the India Cellular & Electronics Association ("ICEA") estimates that mobile phone exports from India doubled to \$11.1 billion for FY2.⁴ While impressive, that number remains relatively modest as a percentage of the global total that includes

\$138.4 billion for China and \$24.6 billion for Vietnam.

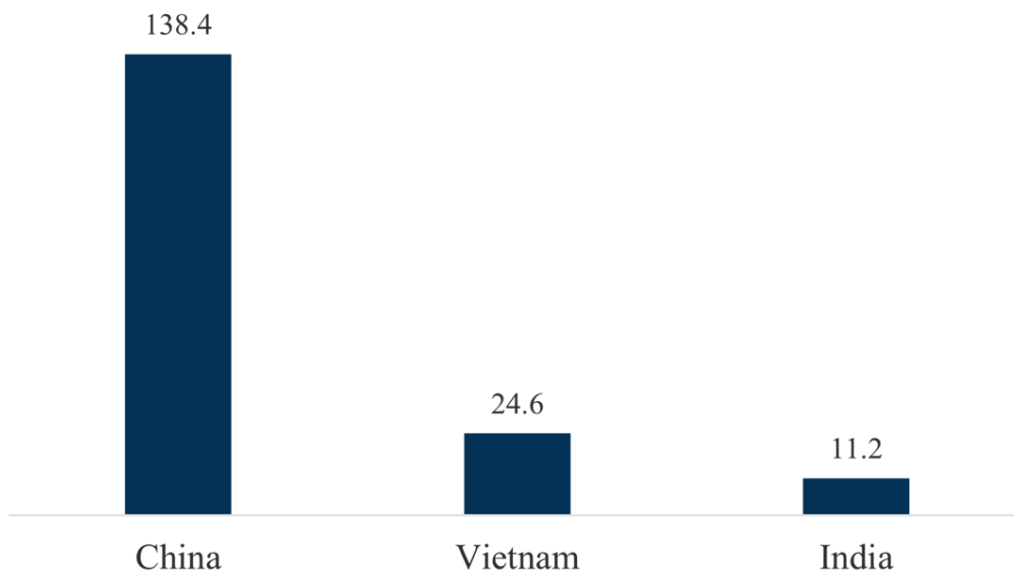


Figure 1: Cellphone Export Volume 2023 Comparison (\$ billions) ⁵

Furthermore, the devil is hiding in the details. If one overlays the imports of components required to manufacture those phones – that is, chips, printed circuit board assemblies, display modules, cameras, Li-ion batteries, etc., the combined net exports of Indian mobile phones turn negative to -\$21.3 billion. Imports are so significant that, even after adjustment for domestic sales of mobile phones and the usage of these components potentially for other industries (i.e. EV manufacturing) that aggregate net exports remain in the red. Essentially, manufacturers are taking advantage of India’s subsidies to complete final assembly in the country and continuing to manufacture higher value-added components elsewhere. The chart below illustrates this likelihood.

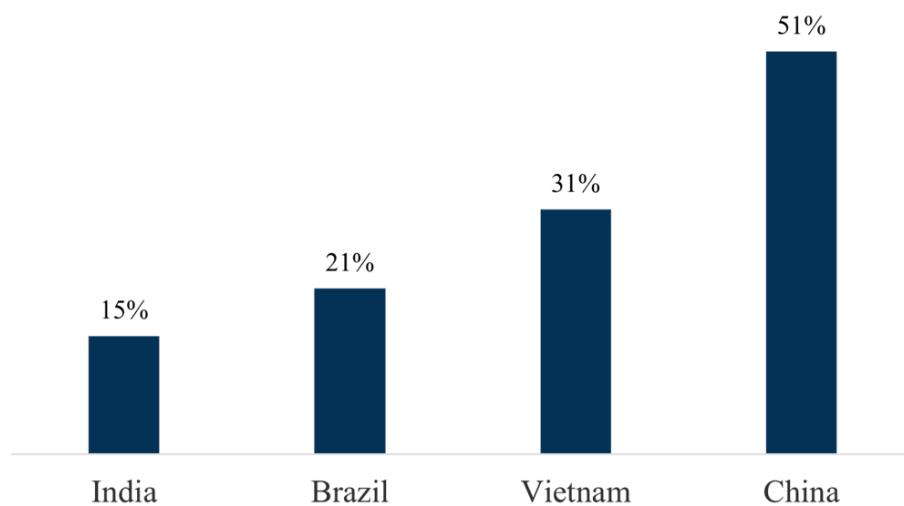


Figure 2: Manufacturing Value-add of Various Countries⁶

The data illustrates that India remains at the beginning of its industrialization journey, lagging Vietnam. In the next newsletter, we explore what it might take for India to close the gap with its Asian neighbors.

CHINA NEWS SPOTLIGHT

U.S. Deploys Three Carriers in Asia, Maintaining China Focus: The U.S. military has doubled down on its effort to deter China and North Korea by deploying three aircraft carriers to the western Pacific, despite growing concerns over the potential for a wider conflict in the Middle East. The U.S. Navy allowed reporters from a few media outlets including Nikkei Asia to board aircraft carrier USS Carl Vinson for a training exercise with Japan in the Philippine Sea on Wednesday. [Read More.](#)

ASEAN Foundation, Microsoft partner for AI upskilling project: As AI is getting more advanced, there has been a growing pressure for the workforce to get accustomed to using and benefiting from the tech, including in Southeast Asia, where adoption is still nascent. For this reason, the ASEAN Foundation – a Jakarta-based organization supporting the region’s community-building efforts – has partnered with tech giant Microsoft to launch the AI Teach initiative, aiming to transform AI education in the region. It will provide AI fluency training to 6,200 educators involved in technical and vocational education and training (TVET) in the region, while also striving to revamp the TVET system. [Read More.](#)

China's Wind, Solar Capacity Forecast to Overtake Coal in 2024: China's installed wind and solar capacity will overtake coal for the first time this year, an industry body forecast on Tuesday. The China Electricity Council (CEC) in a yearly report said grid-connected wind and solar would make up around 40% of installed power generation capacity by the end of 2024, compared with coal's expected 37%. By comparison, wind and solar together were around 36% of capacity at the end of 2023, and coal was just under 40%. [Read More.](#)

IMF Sees Scope for Asia to Cut Rates, Urges Clarity in China's Property Fixes: Asian central banks may see scope to loosen monetary policy later this year as inflation moderates, the International Monetary Fund said on Wednesday and called on China to give a clear message in how it plans to address its property woes. Average inflation in Asia fell to 2.6% in 2023 from 3.8% in 2022, with particularly swift progress in emerging economies, Krishna Srinivasan, director of the IMF's Asia and Pacific Department, told a news conference. [Read More.](#)

China Tech is Running to Stand Still in AI Race: China's technology giants are keeping up in artificial intelligence, but they may not be able to maintain their position for much longer. That's exactly the outcome that Washington is looking for. Tencent's (0700.HK), opens new tab co-founder and CEO Pony Ma this week declared his company is "not too behind" first tier Western peers despite the United States' intensifying campaign to cut the People's Republic off from high-tech semiconductors, equipment and software. It underscores the notable progress the world's second-largest economy has made in generative AI. [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.

² Source: India to review production incentive scheme this month-end; <https://www.reuters.com>; Jun. 13th, 2023

³ Source: Has India Really Become a Mobile Phone Manufacturing Giant?; <https://thewire.in>; Jun. 1st, 2023

⁴ Source: Mobile phone exports from India almost double to \$5.5 bn till August this fiscal; <https://telecom.economictimes.indiatimes.com>; Oct. 9th, 2023

⁵ Source: Mobile phone exports from India almost double to \$5.5 bn till August this fiscal;
<https://telecom.economictimes.indiatimes.com>; Oct. 9th, 2023

⁶ Source: Explained: 2 billion phones and India's quest for higher local value addition;
<https://www.forbesindia.com>; Aug. 22nd, 2023

Important Disclosures

The above information reflects opinions of Morgan Creek Capital Management, LLC (“Morgan Creek”) as of the date it is written and, as such, all such opinions are subject to change. No representation or warranty, express or implied, is given by Morgan Creek as to the accuracy of such opinions and no liability is accepted by such persons for the accuracy or completeness of any such opinions. Further, Morgan Creek does not warrant the accuracy, adequacy, completeness, timeliness or availability of any information provided by non-Morgan Creek sources.

Morgan Creek Capital Management | 301 W. Barbee Chapel Road, Suite 200, Chapel Hill, NC
27517

[Unsubscribe ljacob@morgancreekcap.com](mailto:ljacob@morgancreekcap.com)

[Constant Contact Data Notice](#)

Sent by ljacob@morgancreekcap.ccsend.com