

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@morgancreekc.com.

Best Regards,

Handwritten signature of Mark W. Yusko in black ink.

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

Industrialization is arguably the single most important event in human history which dramatically altered man's standard of living. However, in the two centuries since the Industrial Revolution began, only 63 economies, or less than 20% of people, live in an industrialized country. India, with its sizeable markets and population is looking to leverage the supply chain de-risking bandwagon to become the next manufacturing powerhouse. What, if any, are the fundamental challenges it faces in this transition? We contrast the development of India and China (the most recent Asian economy to successfully embark on industrialization) to tease out important ingredients for comparison.

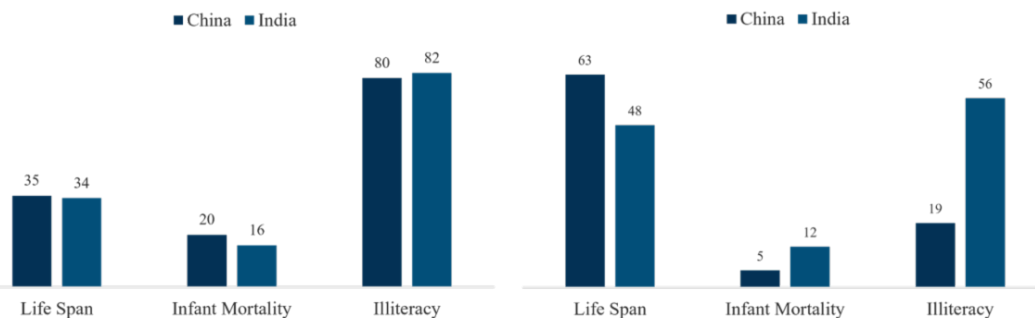


Figure 1: Comparison of Key Metrics for India² and China³, 1950(Left) vs 1980(Right)

Modern India and China began at roughly the same time: 1947 and 1949 and had roughly the same standard of living. However, the trajectories of both countries began to diverge almost immediately.

Many foreign observers assume that China rose due solely to Deng's economic reforms. That is not the full picture – China for the period under Mao, even including the calamities that were the Great Leap Forward and the Cultural Revolution, saw tremendous increases in important metrics of its citizens – most crucially, life expectancy and literacy. These are two surrogate metrics for quality of labor, possibly the most important resource for a manufacturing economy. Over three decades, Mao had prioritized modernization and succeeded in handing over a proto-industrialized country to Deng for further development. India is still some way behind as it has yet to attain China's milestones in either life expectancy or literacy.

Specifically, businesses consider a range of factors when making outsourcing decisions.

- Labor quality, or output per unit wage. China remains unrivaled explaining why, despite China's relatively higher wages it remains the largest manufacturing country in the world.

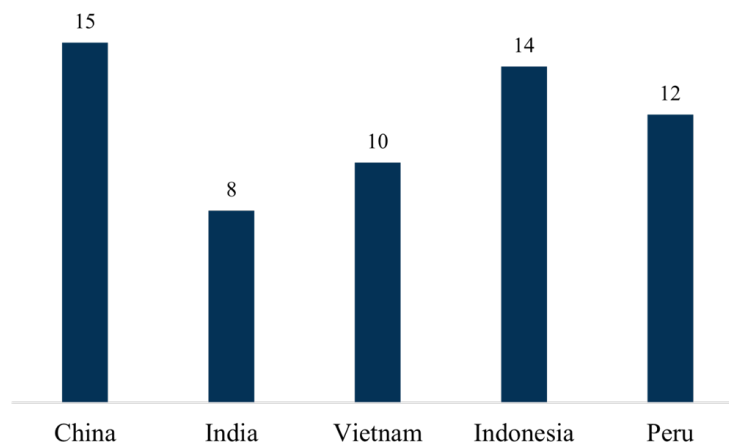


Figure 2: India Manufacturing % GDP⁴

Manufacturers in India, specifically, struggle with growing pains. In cellphone production, for example, they face a defect rate of around 50%⁵ - a level unfeasible without significant government subsidies to compensate.

- Infrastructure. Equally important is physical infrastructure such as highways and railroads to cost-effectively transport goods and services. On the surface, India appears ahead with the second longest road network after the US (and the densest). However, any traveler that has been to both countries will know that there is a significant difference in quality. Only 3% of India's roads are national highways, and 75% of those are only two-lane roads. 40% of the roads are dirt roads and over 30% of villages have no access to all-weather roads.⁶ According to the logistic performance index released by the World Bank, the infrastructure score of India is 3.2 compared to China's 4.0.⁷
- Industrial clusters. With the target of \$1 trillion in exports by 2030, India must strategically prioritize labor-intensive exports, as these sectors serve as significant drivers for job creation. The expansion of job opportunities contributes to the growth

of the middle class, which, in turn, attracts foreign companies seeking to localize their operations and value chains. However, India encounters two primary challenges at the outset: 1) Implementing a credit guarantee mechanism to support Micro, Small, and Medium Enterprises (MSMEs), which play a pivotal role in facilitating labor-intensive manufacturing⁸; 2) Streamlining bureaucratic hurdles related to business formation as the current licensing policy impedes production efficiency.⁹

Thus, we believe that India is early in its industrialization journey.

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ASIA NEWS SPOTLIGHT

HK Plans Focused, Effective Use of Resources in Budget: Chan: Hong Kong plans to be more focused and effective in using limited public resources when facing a deficit, Financial Secretary Paul Chan wrote in his blog before he releases the city's new budget on Feb. 28. The government has a better understanding of Hong Kong people's concerns after receiving "valuable" responses from the public during the budget consultation period, Chan said in the Sunday post. [Read More.](#)

China Markets Inch Higher to Clock Nine straight Days of Gains as Investors Digest Property Price data: Asia-Pacific markets were mostly higher Friday, with China stocks rising for the ninth straight session as investors digested property prices data. The CSI 300 index ended 0.09% higher at 3,489.74, extending its winning streak for nine days in a row. Hong Kong's Hang Seng index was 0.13% lower in volatile trading. Data showed sales prices of newly built commercial housing in first-tier cities fell 0.3% month-over-month in January, with declines narrowing by 0.1 percentage points from the previous month. [Read More.](#)

Country, ASEAN Build Bridge from Heart to Heart: China and member states of the Association of Southeast Asian Nations kicked off the 2024 ASEAN-China Year of People-to-People Exchanges on Feb 2 with a high-standard, high-level launching ceremony in Fuzhou, Fujian province. It is only through friendship of the heart that a long-lasting relationship can be established. In more than 2,000 years of friendly exchanges, China and ASEAN have jointly created a diverse and splendid Asian civilization and written a magnificent poem of civilizational integration. [Read More.](#)

Xiaomi 14 Gains Attention in Southeast Asia with Camera Upgrades: Xiaomi Corp.'s latest smartphone launch caught early customer attention in Southeast Asia as the company seeks to reclaim ground lost to other top players including Samsung Electronics Co. and Chinese peer Transsion. The global launch of the Xiaomi 14 and 14 Ultra devices at Mobile World Congress in Barcelona pushed Xiaomi's name into the top 10 of online trending lists in Malaysia and the Philippines. While Apple Inc.'s iPhone dominates interest in Southeast Asia as it does globally, Xiaomi took second place from Samsung in Indonesia a year ago with the launch of its earlier generation. [Read More.](#)

Framework Tech Forms Strategic Collaboration with Huawei Cloud to Expand Technological Frontiers in Southeast Asia: On February 5th, 2024, Framework Technology Quantum (Framework Tech), a leader in blockchain and digital finance innovation, is excited to announce a strategic collaboration with Huawei Cloud. This

partnership aims to enhance Framework Tech's technological capabilities and accelerate its global expansion, with a particular focus on the Southeast Asian market. Framework Tech's CEO, accompanied by a dedicated team, arrived in Kuala Lumpur to finalize the details of this groundbreaking partnership with Huawei Cloud's Southeast Asia headquarters. [Read More.](#)

After Doubts About Alibaba's Future, Co-founder Joe Tsai says: 'We're back': Chinese e-commerce giant Alibaba is back on track to be a top market player after a period of pressure, co-founder Joe Tsai told CNBC's Emily Tan in an exclusive interview Friday. Questions about Alibaba's future have mounted after a series of internal changes, a scrapped cloud computing IPO and competition for its core e-commerce business. The long-time behemoth in China's online shopping world has in recent years faced greater competition as cost-conscious consumers turn to lower-priced goods from PDD Holdings, and amid the rise of livestreaming sales on Douyin, China's version of TikTok that's owned by ByteDance. [Read More.](#)

Asia Pacific Could Become a Global Leader in the Energy Transition: Home to half of the world's population and contributing a third to the global GDP, the Asia Pacific region is expected to maintain a 50% share of global primary energy demand and a 60% share of global carbon emissions until 2050. This trend is unlikely to change without strong policy action and investment. However, the region still has the potential to turn these challenges into opportunities and become a global leader in the energy transition, according to 'Wood Mackenzie's Asia Pacific Energy Transition Outlook (ETO)' report. [Read More.](#)

China Implements a Renewable Energy Programme in Cuba: The provinces of Villa Clara, Ciego de Avila and Holguin are currently installing three photovoltaic parks donated by China. There are 75 solar parks in the country, providing 254 megawatts of power and saving 110,000 tones of fuel per year. This is reported by Prensa Latina, a partner of TV BRICS. In addition, 360,000 tones of carbon dioxide are no longer emitted into the environment because of this clean energy. The installation of the equipment in Holguin is 63 per cent complete and the facility, located in the municipality of Freire, will serve hundreds of homes next March. [Read More.](#)

Enercon Asia to Invest Up to \$100MM in Clean Energy in Philippines: Power solutions provider and renewable energy firm Enercon Asia Pte Ltd is aiming to invest \$40 million to \$100 million in the clean energy sector of the Philippines within the next two to three years. In particular, the Singapore-based company is studying potential solar projects. The investment would be its first such investment in the Philippines, according to a statement by Enercon Asia Executive Chairman Azhar Othman sent to Rigzone. "Looking at the potential of the demand for Data Centers, Power Integration Solutions, Renewable Energy (up to 100MW), and Energy Efficiency services and solutions, we are looking at an investment of USD 40 million to USD 100 million", Othman said in the statement. [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: Census 2011: Literacy Rate and Sex Ratio in India Since 1901 to 2011; <https://www.jagranjosh.com>; Oct.17th, 2016

³ Source: National Bureau of Statistics of China; <https://www.stats.gov.cn/english/>

⁴ Source: Statistics on labour productivity; <https://ilostat.ilo.org/>; Nov, 2023

⁵ Source: Apple's manufacturing shift to India hits stumbling blocks; <https://www.ft.com/>; Feb. 13th, 2023

⁶ Source: India's terrible roads: how to build a world-class network and still reach net zero;

<https://www.reading.ac.uk/research/>; Nov. 22nd, 2021

⁷ Source: Logistics Performance Index Report 2023; <https://lpi.worldbank.org/report>

⁸ MSMEs are at the heart of India's economy, accounting for over 30% of India's GDP growth and employing over 100 million people. Yet only 11% of MSMEs have access to formal credit and more than 60% of all credit demand is unmet. Source: How OCEN Is Democratizing Credit Access In India; <https://www.forbes.com/>; Jan. 26th, 2023

⁹ Source: Policy barriers, bureaucracy could slow pace of investment in India - Moody's; <https://www.reuters.com/>; May. 23rd, 2023

Important Disclosures

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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