

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,

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

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

In creating a world of objects by his personal activity, in his work upon inorganic nature, man proves himself a conscious species-being, i.e., as a being that treats the species as his own essential being, or that treats itself as a species-being.

--Karl Marx²

There's a common belief that Chinese consumers are in a "downgrade" phase amid economic challenges and negative sentiment. While somewhat valid, this only scratches the surface of a more complex reality. We believe that Chinese consumer habits are evolving in a nuanced yet pervasive manner, mirroring broader societal changes.

An analysis of the historical evolution of consumer behavior reveals a pattern correlated with the stages of economic development. Initially, the growth of a middle class, given economic progress and urbanization, leads to the dominance of mass consumer products. As the economy moderates further and discretionary spending power rises, heightened consumer awareness catalyzes a shift towards consumption upgrade, that is branded products and/or services. Finally, as economic growth peaks and reaches a steady state, the consumer begins to evolve again transcending material consumption and beginning to value experiences and services instead. This shift toward rationality in product consumption means individuals will

tend to make purchases largely based on essential needs, marking a departure from the earlier stage of “conspicuous consumption”, where material possessions were partially utilized as indicators of social status and well-being.




		Necessity (Durable Goods)	Upgraded (Luxury Products)	Rational (Cost-effectiveness)
	<i>Time frame</i>	1920 - 1969	1970 - 1989	1990 - Present
	<i>Growth rate of GDP per capita</i>	5.5%	7.2%	4.0%
	<i>Representative companies (Founding Year)</i>	Whirlpool (1911)	Michael Kors (1981)	Old Navy (1994)
	<i>Time frame</i>	1945 - 1974	1975 - 2004	2005 - Present
	<i>Growth rate of GDP per capita</i>	17.5%	8.2%	-0.3%
	<i>Representative companies (Founding Year)</i>	Sony (1946)	Stüssy (1980)	Anello (2005)
	<i>Time frame</i>	1990 - 1999	2000 - 2017	2018 - Present
	<i>Growth rate of GDP per capita</i>	8.8%	14.2%	7.9%
	<i>Representative companies (Founding Year)</i>	TCL (1981)	Heilan Home (1997)	Perfect Diary (2016)

Figure 1: Consumer behavioral changes among three countries³

We believe the Chinese consumer is at the cusp of this transition. What observers view as a "consumption downgrade" in China may be driven by a deeper transformation in Chinese societal consumption from goods to services.

- Goods to services/experiences

Jay Chou, a renowned Chinese singer-songwriter recently held concerts in Hohhot, a third-tier city in Inner Mongolia. The four-day period of his performance witnessed approximately 184,000 attendees, with more than 70% traveling from other provinces. Hohhot experienced a surge in tourism, welcoming over 1.2 million visitors and generating tourism revenue of 2.8 billion RMB, 3.3 times higher than that generated during the similar three-day Dragon Boat holiday just a few months prior.⁴

- Well-recognized luxury brands to quality products

China is today the second-largest cosmetics market globally with an overall market size of \$113 billion.⁵ In 2023, Chinese domestic brands have for the first time surpassed international peers, claiming a 50.4% share of the local market. During the Chinese Single’s Day (a mega online shopping bonanza festival), Proya, a mid-range local cosmetic brand priced between 200 and 400 RMB, outperformed L’Oréal to emerge as the leading beauty brand by sales on Tmall and Douyin, experiencing a 40% and 200% surge in GMV⁶, respectively.⁷

The pandemic may have played a role accelerating this consumer transition in China, pushing them to search for deeper emotional fulfillment. The lifting of the 3-year-long COVID travel restrictions too has ignited a strong desire to resume offline entertainment activities at some expense to material consumption, which itself has undergone an evolution from “conspicuous” to “pragmatic”.

As It Happened: China's 'Two Sessions' 2024 – Premier Li Qiang Sets GDP Target of Around 5% for the Year: China's top legislature, the National People's Congress (NPC), opens its annual meeting on Tuesday. Premier Li Qiang will deliver his first government work report at the meeting, offering a glimpse into the central government's economic goals and foreign policy as well as its approach towards social issues, Hong Kong affairs and Taiwan. This year's gathering comes as concerns about China's economy intensify following market slides and faltering growth figures last year. [Read More.](#)

China's CNOOC Makes 100-million-ton Oilfield Discovery in South China Sea: Chinese state-owned oil and gas giant CNOOC Ltd (0883.HK), opens new tab has discovered a new reserve in the South China Sea containing over 100 million tons of oil equivalent proved in-place, the company said in a statement on Friday. The reserve is located at CNOOC's deepwater Kaiping South oilfield in the Pearl River Delta near Guangdong province, and contains light crude, the statement said. [Read More.](#)

UNESCO invites ASEAN Tech and Travel Professionals to Discuss Sustainability and Community-based Tourism: UNESCO, in partnership with DASTA, ASEAN-Türkiye Cooperation, CRIHAP, K11, ONYX Hospitality Group, The City Connex, and b.Consulting Cambodia, invites participants for the upcoming webinar, Harnessing Digital Tools for Greater Community Involvement in the Tourism Narrative. This is the third event of an ongoing series of webinars and related workshops planned for 2024 by the Culture Unit of the UNESCO Regional Office in Bangkok and partners, under the umbrella of the UNESCO project, 'Achieving Sustainable Tourism with Intangible Cultural Heritage and Creative City Network in Waterway Cities of ASEAN', which was launched in September 2023. [Read More.](#)

ASEAN Issues Guidelines for Artificial Intelligence: In early February, the 10-member Association of Southeast Asian Nations (ASEAN) released its much-anticipated governance model for artificial intelligence (AI), the ASEAN Guide to AI Governance and Ethics. The model takes a non-binding approach to AI development, putting forward a set of guidelines for governments and businesses to follow as they develop and use AI systems in the region. [Read More.](#)

China's JCET to Buy Stake in Flash Memory Facility from Western Digital: Chinese chip assembly and testing firm JCET Group (600584.SS), opens new tab said on Monday it plans to buy an 80% stake in a Shanghai flash memory facility owned by Western Digital Corporation (WDC.O), opens new tab for about \$624 million in cash. SanDisk Semiconductor Shanghai makes products such as iNAND flash memory modules as well as SD and MicroSD components used in areas such as telecommunications, automobiles and consumer devices, JCET said in a filing. [Read More.](#)

USTDA Advances Energy Sector Integration In Indonesia, Malaysia: Today, the U.S. Trade and Development Agency (USTDA) signed a grant agreement with Indonesian national utility PT Perusahaan Listrik Negara (PLN) for a feasibility study to support of the development of two cross-border power interconnections between Indonesia and Malaysia. The project, which advances a key power sector objective for the Association of Southeast Asian Nations (ASEAN), will facilitate efficient resource sharing to help meet growing energy demands, enhance energy security, and implement policies for clean energy and climate protection goals in both countries. "Deploying this cross-border power transmission infrastructure will further Indonesia and Malaysia's renewable energy, climate, and economic ambitions and catalyze benefits across ASEAN member nations," said Enoch T.

Secretary-General of ASEAN Visits the Business and Climate and Energy Market on the Sidelines of the ASEAN-Australia Special Summit: Secretary-General of ASEAN, Dr. Kao Kim Hourn, visited the Business and Climate and Energy Market (Marketplace) at the Melbourne Convention Exhibition Centre today. The Marketplace is an information and advisory services centre set up alongside the SME Conference and the Climate and Clean Energy Transition Forum, which are thematic track events of the ASEAN-Australia Special Summit. The Marketplace gathered over 450 participants from various sectors, including Australian government agencies, SMEs, academia, and investors. [Read More.](#)

¹ The 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: Estranged Labour, Karl Marx, Economic and Philosophical Manuscripts of 1844

³ Source: Wind Database; 2023 White Paper on Chinese Middle Class, Xiaobo Wu, Dec 26, 2023

⁴ Note: The variance in numbers between tourist and concert attendance can be attributed to the fact that concert attendees often bring along friends or family who do not possess tickets to the event, thereby contributing to the city's overall tourism figures. Source: Jay Chou Carnival World Tour Concert in Hohhot, four concerts, bringing in tourism revenue of 2.8 billion yuan, Follow the sages, Aug 23, 2023

⁵ Source: China Insights Consultancy

⁶ Note: GMV stands for Gross Merchandise Value.

⁷ Note: The data provides a snapshot of the one-day figures during Chinese Single's Day (11/11/2023). Source: Chinese Beauty Brands Surpasses International Brands for the First Time, <https://chaileedo.com/>, Jan 9, 2024

Important Disclosures

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