

# 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@morgancreekcap.com](mailto:chinateam@morgancreekcap.com).

Best Regards,

A handwritten signature in black ink that reads "Mark W. Yusko". The signature is written in a cursive, slightly slanted style.

Mark W. Yusko  
CEO & CIO

### **NOTES FROM THE BUND<sup>1</sup>**

The Chinese Communist Party ("CPC")'s 20<sup>th</sup> Third Plenum concluded on July 18<sup>th</sup>.<sup>2</sup> Historically, Third Plenums typically are held every five years and have been centered around setting long-term economic policy and goals and providing a strategic blueprint for the country for the upcoming decade. In 1978, the 11<sup>th</sup> Third Plenum, led by Deng Xiaoping, introduced reforms and opening-up initiatives, allowing China to embark on its journey toward economic rejuvenation. In 1993, the concept of a "socialist market economy" was also put forth by Deng during the 14<sup>th</sup> Third Plenum. The main theme for this most recent Third Plenum focuses on deepening reform supported by "new productive forces." The government has pinpointed three key reform areas – corporate governance, taxation, and the financial system – to seek to ensure its realization.

Consistent with the conclusions drawn from our prior newsletter series, China's emphasis remains on cultivating new productive forces for the long term to pursue high-quality and internal-driven development. The government has identified eight strategic emerging sectors and nine promising industries as primary focal points leading up to 2035. Indeed, related sectors have already emerged as a cornerstone of the economy - in the first half of 2024, advanced manufacturing showed year-over-year growth of 8.7%, surpassing China's GDP

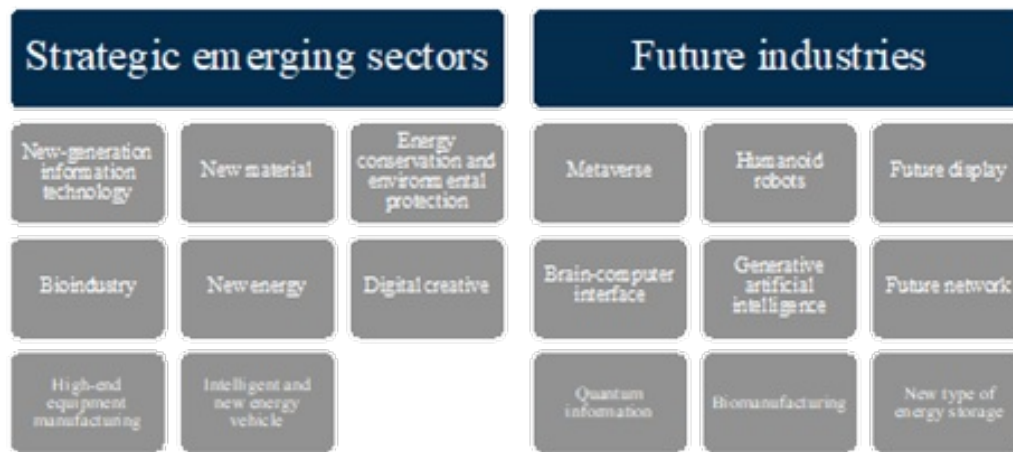


Figure 1: China's future industries mapping<sup>4</sup>

A key highlight of this meeting is the distinct strategies outlined for state-owned enterprises (SOEs) and private enterprises. **For SOEs**, the government is now prioritizing quality of development. Specifically, there is a departure from previous emphasis of "upholding the dominant position of public ownership" and "strengthening the vitality, control, and influence of the state-owned economy," key goals advanced during the 18th Third Plenum. Instead, the government is now focusing increasingly on profit as a measure of development, shifting the SOE goal from mindlessly pursuing growth at all costs. **Regarding private enterprises**, the authorities aim to continue empowering capable private businesses to lead the nation in discovering new technological breakthroughs. To support this initiative, the government will look to further improve and standardize enforcement of regulations to ensure equal treatment between private enterprises and SOEs. Furthermore, the government plans to continue to introduce new legislation to promote the development of private enterprises.

Taxation reform also aims to enhance the financial stability of local governments, enabling them to focus more on developing strategic industries. The recent meeting highlights the intention of regulators to seek to optimize the tax distribution ratio between the central government and local governments for China's three major tax categories: value-added tax, corporate income tax, and personal income tax. The reform of the consumption tax, contributing to 8.9% of total tax revenue in 2023<sup>5</sup> and previously directed solely to the central government, stands out as the most significant. In the past, taxes were paid by producers to the tax authorities at their locales, leading local governments to prioritize developing production capacities over consumption which we believe is a root cause of the current imbalance between supply and demand. The current policy shift involves potentially allowing wholesalers or retailers to contribute their share of taxes to local governments. This is expected to enhance local governments' revenues and also incentivize them to stimulate residents' consumption, establishing a positive cycle of consumption and investment.

Financial system reform was mentioned 34 times during the meeting, indicating the pivotal role the financial system is expected to play in facilitating the advancement of the "new productive forces." Banks are urged to provide loans to support the sector; while insurance companies equipped with ample capital, are encouraged to deploy into private equity investments.

In sum, we believe the most recent Third Plenum has highlighted the government's

commitment towards sustainable economic growth by transitioning the economy towards high technology sectors. We expect to see further details unveiled as the year progresses.

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### ***ASIA NEWS SPOTLIGHT***

#### **Singapore Poised to Overtake Hong Kong, India with Asia's Best Performing**

**Currency:** The odds are growing for Singapore's dollar to be Asia's best-performing currency for a third straight year as the central bank looks set to keep using a firm exchange rate to combat inflation. The nation's currency presently ranks in third place in the region for 2024, behind the Hong Kong dollar, which is pegged to the US currency, and the Indian rupee. However, it's catching up with those peers due to speculation sticky price pressures will prompt the Monetary Authority of Singapore, the central bank, to maintain its appreciating exchange rate settings in its policy review due on Friday. [Read More.](#)

#### **BOJ to Weigh Rate Hike Next Week, Detail Plan to Halve Bond Buying, Sources Say:**

The Bank of Japan is likely to debate whether to raise interest rates when it meets next week and unveil a plan to roughly halve bond purchases in coming years, sources said, signaling its resolve to steadily unwind its massive monetary stimulus. The rate decision will depend on how long the board members prefer to wait for clarity on whether consumption will recover and keep inflation stably around the bank's 2% target, said four people familiar with the BOJ's thinking. [Read More.](#)

#### **China Cuts 1-year Benchmark Rate and Doubles Subsidies for EVs in its 'Cash for Clunkers' Program:**

China ratcheted up its effort to reinvigorate its slowing economy Thursday by unexpectedly cutting a key policy rate and also doubling subsidies for electric vehicles bought to replace older cars. The People's Bank of China said it cut its lending rate for one-year medium term policy loans by 20 basis points to 2.3%. That is the biggest rate cut since the world's second-largest economy was slammed by the COVID-19 pandemic in 2020. [Read More.](#)

#### **Asia as a Hub for Web3 Gaming's Global Growth:**

The gaming industry in Asia is on the cusp of a significant transformation, all thanks to the emergence of Web3. By enabling players to have greater ownership and control over their in-game assets, the potential for new revenue streams makes Web3 gaming a game changer for the industry. However, challenges such as technical barriers and user adoption must be addressed to ensure its success. Once overcome, Asia—already a major player in the global gaming industry and the headquarters for many traditional Web2 gaming studios—will set a precedent for other regions to follow. [Read More.](#)

#### **Cutting-edge Technologies Showcased in 8th China-South Asia Expo:**

The 8th China-South Asia Expo opened here on Tuesday, attracting over 2,000 exhibitors. Visitors learned about and experienced exhibits featuring cutting-edge technologies in the fields of digital economy, artificial intelligence, green energy, low-altitude economy and others. [Read More.](#)

#### **Unlocking Indonesia's Renewable Energy Investment Potential:**

Indonesia, the most populous Southeast Asian country, with its abundant solar, wind, and natural resources, possesses significant potential for renewable energy development. However, it is struggling to make meaningful progress and needs to attract more investment to increase renewable

energy capacity. Indonesia's renewable energy investment has stagnated over the past seven years. The latest data shows that Indonesia could only attract around US \$1.5 billion (bn) in 2023, translating into a mere 574 megawatts (MW) of additional renewable energy capacity; 145MW of which was added in 2023 from the Cirata floating solar project. Meanwhile, Indonesia's neighboring countries have installed significant solar and wind capacity. [Read More.](#)

**TotalEnergies ENEOS Partners with Tanah Merah Country Club to Install 2,200 kWp Solar PV System in Singapore:** TotalEnergies ENEOS entered into a partnership with Tanah Merah Country Club (TMCC), one of the most prestigious golf destinations in Singapore and the Asia region, through the future installation of a 2,200 kilowatt-peak (kWp) ground-mounted solar photovoltaic (PV) system. The ceremony was attended by Elliott Gray, TMCC General Manager, Matthieu Langeron, VP of Solar Distributed Generation at TotalEnergies, and Elodie Renaud, Director of TotalEnergies ENEOS Renewables Distributed Generation Asia. [Read More.](#)

<sup>1</sup>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.

<sup>2</sup>Source: Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization, <http://us.china-embassy.gov.cn/>, Jul 21, 2024

<sup>3</sup>Source: Wind Database

<sup>4</sup>Source: China to expand investment in eight emerging industries, <http://www.xinhuanet.com/>, Sep 23, 2020

<sup>5</sup> Source: Consumption Tax Reform in Accelerating the Establishment of a New Development Paradigm, <https://www.degruyter.com/>, Feb 11, 2023

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### Important Disclosures

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