

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,

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 BUND¹

"I think applications are the key to determining whether this era is the critical moment for AI" ... "While our industry is a hot topic nowadays, it hasn't reached its critical moment yet, because it has not yet penetrated any applications in any vertical industries that have caused widespread change."

---Li Xu, CEO and co-founder of SenseTime²

In this piece, we will offer an in-depth analysis on the development path of AI in China and the driving forces behind it.

As discussed previously, China is more suited to end-to-end models for effectively addressing application-specific issues. However, this doesn't mean that general-purpose AI models are irrelevant in the country. General AI models are known for their broad functionalities and sophisticated technological capabilities. Nonetheless, the Matthew Effect³ is evident in this landscape as resources tend to flow to the winners, enabling them to sustain their success. Currently, constrained by limited funding in the country's private market, the competitive landscape is mostly settled and dominated by two types of players: 1) Tech giants like Huawei, Tencent, and Alibaba, which have substantial resources in terms of capital, talent, and computing power; and 2) Emerging startups like Moonshot.AI, founded

by core developers of today's LLM technologies⁴ and among the few that can attract domestic VC's attention. Within just one year, Moonshot.AI has successfully raised over \$1.3 billion, with its valuation potentially reaching \$2.5 billion.⁵ We think this model will see widespread adoption in sectors with abundant data, such as finance, e-commerce, and social media.

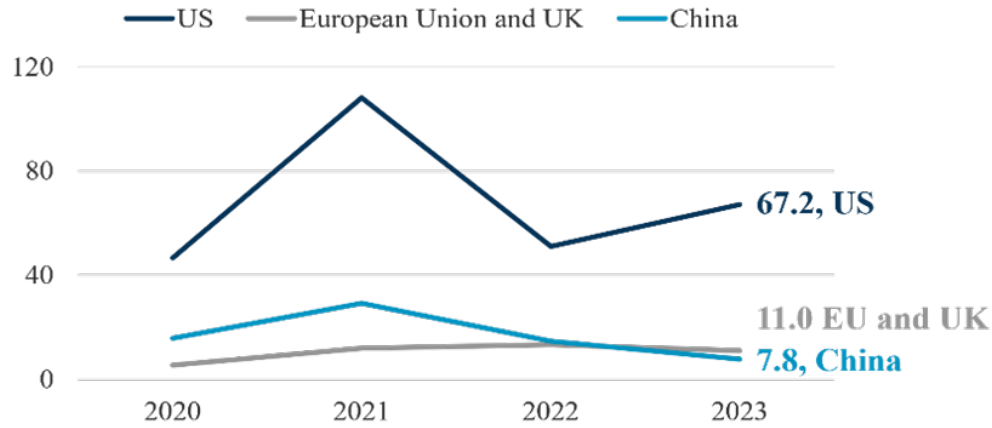


Figure 1: Private investment in AI by geographic area (\$bn)⁶

In end-to-end business models, we expect to see the development of smaller models that balance performance with memory storage. These models typically require less computing power and shorter training times. The industrial sector, in particular, represents a significant market for such adoption in China, which boasts the world's most comprehensive and modernized industrial system covering all 666 industrial categories.⁷ According to McKinsey, the four largest economic benefits from AI adoption in China are projected in advanced manufacturing (\$152 billion), electronics and semiconductors (\$96 billion), consumer goods (\$85 billion), and energy (\$59 billion).⁸ The integration of AI in manufacturing has progressively evolved, moving from initial data collection to optimization and transformation across various stages, including production, logistics, and sales. This evolution enables enterprises to enhance production efficiency and product quality through refined management, resulting in measurable cost reductions and efficiency improvements.

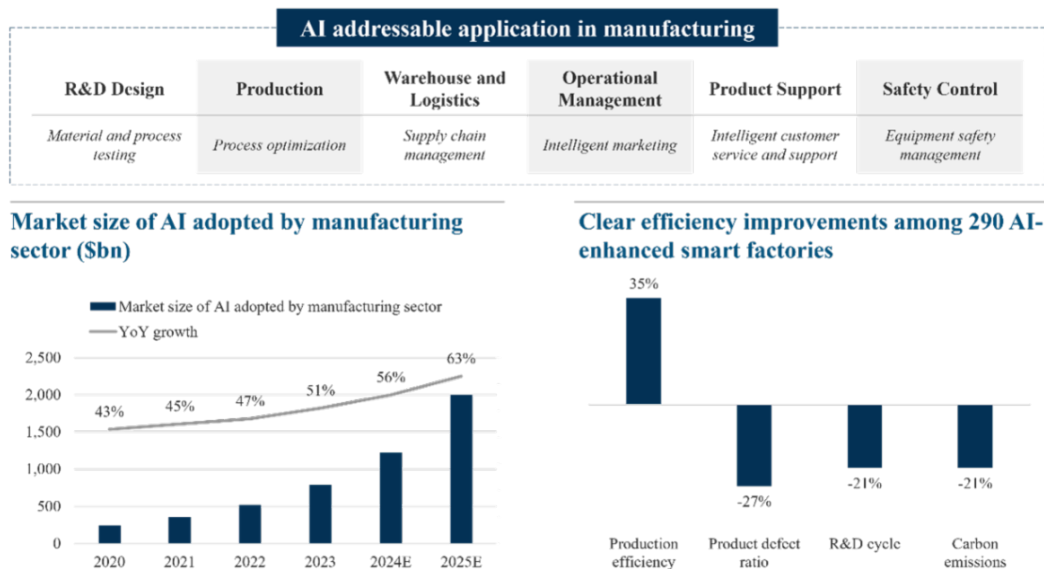


Figure 2: AI market in manufacturing sector soars due to efficiency momentum⁹

We believe the advancements in AI in the areas we discussed above are driven by three key factors: China's immense data resources, a highly skilled talent pool, and significant R&D efforts.

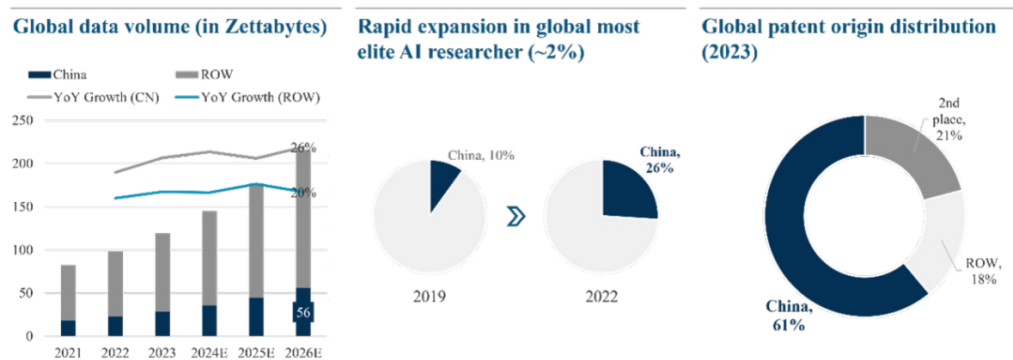


Figure 3: China's strong competence¹⁰

In conclusion, the development path of AI in China reveals a dynamic and multifaceted landscape. The integration of end-to-end models addresses specific application challenges effectively, tailoring well to the country's economic structure. Concurrently, general-purpose AI models continue to demonstrate their broad technological capabilities led by local tech giants. As China continues to advance its AI capabilities, the competitive combination of its extensive data resources, skilled talent pool, and robust R&D efforts will be pivotal in shaping a unique future trajectory of AI.

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ASIA NEWS SPOTLIGHT

Asia-Pacific Markets Mixed as Middle East Tensions Rise; Investors Assess Powell Rate Cut Comments: Asia-Pacific markets were mixed on Monday amid escalating tensions in the Middle East with Israel and Hezbollah trading strikes, while investors assessed dovish comments from U.S. Federal Reserve Chairman Jerome Powell. Over the weekend, Reuters reported Israel's Air Force struck Hezbollah targets in Lebanon, shortly before the Iran-backed armed group launched over 320 rockets toward Israel. [Read More.](#)

China's Central Bank Advances Interest Rate Reform, and Other Economy Stories to Read this Week: China's central bank is shifting its focus from the size of credit to its cost, aiming for a more market-driven interest rate system. However, the transition faces challenges from liquidity risks and uncooperative markets. This move, while crucial for broader financial reforms, is expected to be gradual, with the People's Bank of China facing significant hurdles as it works to balance reform goals with economic stability. [Read More.](#)

Lotte Holdings Launches Healthcare CVC to Invest in Global Biopharma Startups: Lotte Holdings, a South Korean multinational conglomerate, has launched a corporate venture capital (CVC) fund focused on the healthcare and biopharmaceutical sectors. The fund will invest in startups globally across all stages, although the exact size of the fund has not been disclosed. The new CVC arm aims to back companies specializing in biopharmaceuticals and next-generation modalities. This initiative marks a strategic expansion for Lotte Holdings as it strengthens its presence in the rapidly evolving healthcare and biotech markets. [Read More.](#)

China Invests \$6.1 billion in Computing Data Center Project, Official Says: China has invested over 43.5 billion yuan (\$6.12 billion) in a nationwide project to build computing data centers over the past years, a senior government official said on Thursday, amid tech export restrictions from the United States. Liu Liehong, head of China's National Data Bureau, disclosed the figure, which is current as of end-June, at an industry conference in the southwestern city of Guiyang, state news agency Xinhua reported. [Read More.](#)

Duo Going on Low-carbon Mission to Enhance Southeast Asia's Energy Resilience: The Asia Natural Gas and Energy Association (ANGEA) and the ASEAN Centre for Energy (ACE) have inked a memorandum of understanding (MOU) to expedite energy transition and strengthen the security of power supply in Southeast Asia. The deal focuses on the development of liquefied natural gas (LNG), methane emissions management, power market, and carbon capture utilization and/or storage (CCU/S) initiatives as the means to improve the region's energy security. [Read More.](#)

China to Continue with Low-Carbon Reforms, Energy Regulator Says: China will keep phasing out fossil fuels and reforming its electricity system, the energy regulator said on Thursday, issuing a white paper long on listing accomplishments but short on new plans for China's energy transition. National Energy Administration head Zhang Jianhua said China would continue to reform its electricity system, expand the spot market, promote green electricity trading and replace fossil fuels with renewable energy. He also called for market-oriented reforms. [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: World Artificial Intelligence Conference (WAIC), Jul 4, 2024

³ Note: The Matthew Effect refers to the phenomenon where initial advantages accumulate over time, leading to greater benefits and opportunities for those who are already advantaged, while those starting with disadvantages struggle to catch up.

⁴ Note: Founder Mr. Zhilin Yang, lead author of Transformer-XL and XLNet, is the top-cited NLP researcher under 35 in China. The founding team includes experts who have participated in developing models like Google Gemini, Google Bard, PanGu NLP (Huawei's), etc.

⁵ Source: ITJUZI.com Database

⁶ Source: 2024 AI Index Report, <https://aiindex.stanford.edu/>, Apr 9, 2024

⁷ Note: This aligns with the definition from the United Nations International Standard Industrial Classification (ISIC) of All Economic Activities.

⁸ Source: Generative AI in China: \$2 Trillion in Economic Value, <https://www.mckinsey.com.cn/>

⁹ Source: Jazzyear Database; AI+ adoption accelerated by the New Productivity Forces, BOCOM International, Jul 25, 2024

¹⁰ Source: 2022 China Big Model Development White Paper, <https://www.idc.com/>, Feb 2024; Four things you need to know about China's AI talent pool, <https://www.technologyreview.com/>, Mar 27, 2024; 2024 AI Index Report, <https://aiindex.stanford.edu/>, Apr 9, 2024

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