

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". The signature is written in a cursive, slightly slanted style.

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

Consumption tax, currently the third largest tax type, is collected solely by the central government. Tobacco, refined oil, automobiles, and alcohol & tea are the four largest contributors to consumption tax revenue, accounting for nearly 85% of the total. Additionally, most consumer goods are taxed at the production stage, which inadvertently incentivizes local governments to focus on attracting enterprises rather than promoting local consumer spending.

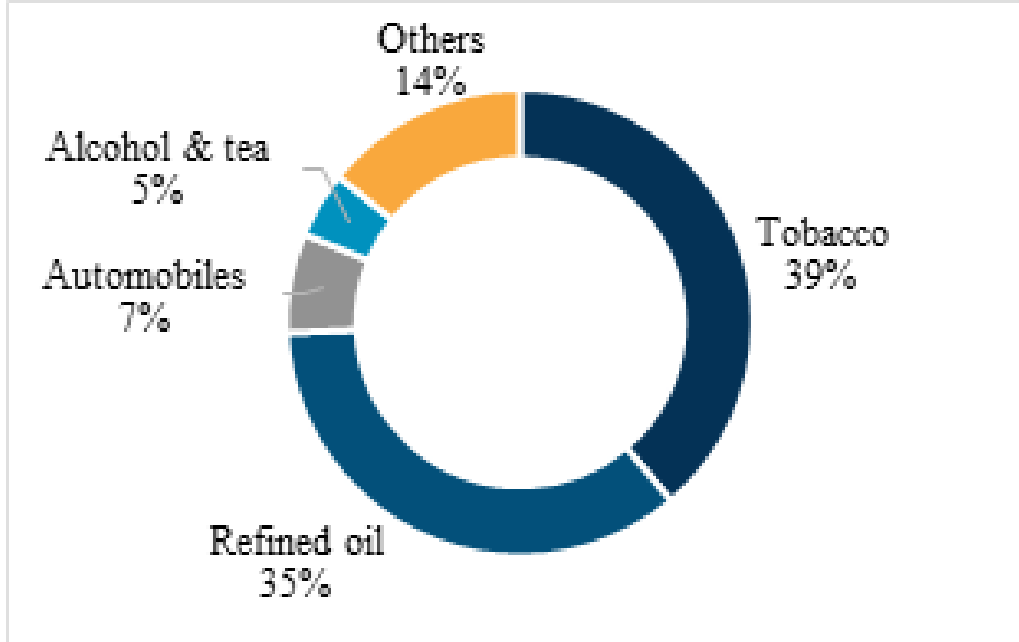
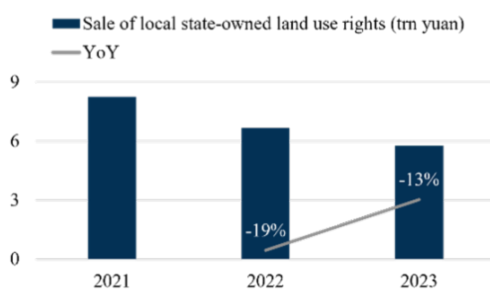


Figure 1: Key industries contributing to consumption tax²

The proposed reform introduces two key changes: 1) allowing local governments to retain a portion of the consumption tax, which would help ease their financial burden, and 2) shifting tax collection to the consumer side, encouraging local governments to prioritize consumption over production, thereby promoting local consumer spending and boosting the overall domestic demand.

As mentioned in our previous letter, revenues from the sale of local state-owned land use rights saw a significant decline after 2022, with the gap between 2022 and 2023 reaching nearly 1 trillion yuan. Although the specific allocation ratios for consumption tax have not yet been finalized, market forecasts suggest that local governments could potentially increase tax revenues by approximately 700 billion yuan in 2023, covering about 70% of the gap.³

Decrease of sales of local state-owned land use rights



Market consensus of revenue increase by the reform

Key assumptions	Portion allocated to local governments
Tobacco and alcohol	50%
Refined oil	20%
Automobiles	100%

~700 billion income increase

Figure 2: Potential of the reform to bridge the gap left by land-based financing⁴

From a regional development perspective, this reform should benefit provinces with large populations and, more importantly, tourism cities. China's tourism industry has experienced significant growth since the post-pandemic period. In 2023, domestic tourist spending reached approximately 4.9 trillion yuan, a YoY increase of 140%, highlighting the vitality and potential of tourism consumption. Per capita spending per trip was 1,004 yuan, up 24.5% from the previous year, surpassing 2019 levels.⁵ We anticipate this trend will continue as Chinese consumption habits increasingly shift towards experiences⁶, amplifying

the impact of the reform in boosting domestic consumption.

In sum, by gradually shifting the collection of consumption tax to later stages and increasing its allocation to local governments, the reform addresses both immediate fiscal needs and long-term revenue stability. This approach not only offers a solution to the current challenges of declining local revenue and significant debt burden but also has the potential to boost local revenue through increased consumption tax. This, in turn, should provide a strong incentive for tourism cities to innovate and expand their offerings. Additionally, anticipated improvements in infrastructure and service quality could create a positive feedback loop, enhancing local economic conditions and ultimately driving stronger domestic demand.

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ASIA NEWS SPOTLIGHT

South Korea's Yoon, Japan's Ishiba in Talks to Meet Sidelines of ASEAN, Yonhap Says: South Korean President Yoon Suk Yeol and Japanese Prime Minister Shigeru Ishiba are in talks to hold a meeting on the sidelines of the ASEAN summit which will be hosted by Laos next week, the Yonhap news agency reported, citing Yoon's office. Yoon will also visit the Philippines and Singapore during his trip between Oct. 6 and 11, the report said. [Read More.](#)

China's National Day Box Office Tops a Billion Yuan on Day 3, but Holiday Haul Lags: China's box office bookings for the ongoing National Day holiday period had surpassed 1 billion yuan (US\$142 million) as of Thursday morning, according to box office tracker Dengta Data, but the industry remains under pressure compared with years past. This year's bookings crossed the 1 billion yuan mark on the third day of the seven-day "golden week" holiday, which started on Tuesday, compared with last year, when the milestone figure was reached on the second night. [Read More.](#)

Hong Kong Stock Rally Resumes as Oil Price Fears and Mideast Tensions Weigh on Europe and U.S.: Shares in Hong Kong jumped while most other markets in Asia and Europe eked out small gains. Oil prices rose as investors awaited Israel's response to Iran's Tuesday missile attack. China's markets remained closed for Golden Week holidays. Hong Kong shares resumed their rally on the back of China's stimulus measures, jumping 2.82% a day after traders took profits following a three-week rise of some 30%. [Read More.](#)

Global Innovation Index 2024: ASEAN Continuing to Cement Itself as a Global Innovation Hub: ASEAN's innovation journey continues to gain momentum, achieving impressive strides in the Global Innovation Index (GII) 2024, released by the World Intellectual Property Organization (WIPO). This year, GII 2024 tracks the innovation performance of 133 economies, offering valuable insights into how countries are evolving their innovation ecosystems. In the GII's 2024 edition, three ASEAN Member States (AMS) rank among the top eight fastest movers of the past decade: Viet Nam (from 76th to 44th), Philippines (from 90th to 53rd) and Indonesia (from 85th to 54th). Six AMS have moved up in the top 55 of the rankings, showcasing the region's rising influence: Singapore (4th), Malaysia (33rd), Thailand (41st), Viet Nam (44th), Philippines (53rd) and Indonesia (54th). [Read More.](#)

Asia Pacific: Region Enterprise Tech Spending led by Semiconductor Players: Asia Pacific will contribute more than half of a 1.7ppt nominal growth acceleration in global US\$-measured tech spending in 2025. In real terms, regional spending growth is set to slow to

7.6% from 10.2% in 2024. Still, the growth is faster than in Europe (4.3%) and Americas (5.1%). [Read More.](#)

US Sets Preliminary New Duties on Solar Imports from Southeast Asia: The U.S. Commerce Department on Tuesday announced anti-subsidy countervailing duties on solar cells imported by companies in Vietnam, Cambodia, Malaysia and Thailand that were lower than some expected for several major Chinese producers. The announcement is the first of two preliminary decisions expected by the Commerce Department this year in a trade case brought by South Korea's Hanwha Qcells (000880.KS), opens new tab, Arizona-based First Solar (FSLR.O), opens new tab and several smaller companies seeking to protect billions of dollars in investments in U.S. solar manufacturing. [Read More.](#)

GE Vernova Showcases Solutions to Help Accelerate Asia's Energy Transition at Enlit Asia 2024: As countries across Asia look to progress on their energy transition amidst increasing climate action globally, GE Vernova Inc. (NYSE: GEV) remains committed to addressing the energy trilemma of affordability, reliability and sustainability in the region and will participate as a Platinum Sponsor at the upcoming Enlit Asia 2024. According to International Energy Agency, countries in Asia will use half of the electricity in the world in the year 2025. With Asia's power sector accounting for 49% of the region's greenhouse gas emissions, the shift to cleaner sources of energy underpins the critical need to both decarbonize Asia's power sector and ensure more reliable, accessible electricity for a rapidly growing population. [Read More.](#)

China Urges EU to Delay Implementing Tariffs on China-made EVs, State Media Says: China called on the European Union on Friday to delay implementing tariffs on Chinese-made electric vehicles and avoid escalating trade frictions, state media reported. China's Chamber of Commerce to the EU expressed in a statement strong dissatisfaction with the EU for promoting "trade protectionism" measures. [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: China Tax Yearbook 2023

³ Note: This does not include changes of real estate-related taxes.

⁴ Note: The projection is based on average estimates from Guangda Securities and Galaxy Securities with same assumptions; Source: China Tax Yearbook 2023

⁵ Source: Ministry of Culture and Tourism of the People's Republic of China

⁶ Note: This insight has been discussed in our Rational Consumption series.

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.

