

MORGAN CREEK

CAPITAL MANAGEMENT

ALTERNATIVE THINKING ABOUT INVESTMENTS

New China Perspectives



Welcome to the weekly issue of Morgan Creek's *New China Perspectives*. It is comprised of research from Morgan Creek's China-based investment team together with curated articles of interest. In addition to timely political and economic news covering greater China, Morgan Creek's China team seeks to provide in-depth perspectives on investing in the technology, consumer and healthcare sectors in the region. Our research leverages the "on the ground"

insights of our team together with Morgan Creek's decades-long experience in covering the region. Our team are focused, thematic investors primarily covering the technology, consumer, and healthcare sectors and investing in private companies and early-stage managers with deep local expertise. To learn more about our team and investment offerings, please email chinateam@morgancreekcip.com.

Best Regards,

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

Over the next five weeks, we will discuss in depth the recent regulatory changes made by China, and the implications for both China's economy and the broader world economy.

Figure 1: Chinese regulators have been busy recently



Many international investors are surprised by the breadth and depth of regulatory changes that China has undergone over the past 12 months. These have led to many questions including:

- Why are the authorities undertaking such broad regulatory measures?

China regulations appears to be very random. Is there a method behind the ‘madness’?

- Is China turning away from capitalism?
- Is China still investable?
- How far will reforms go this time?

Over the next five newsletters, we will expand upon our core viewpoints outlined below:

- Rising US-China tensions have forced China to rapidly transition its economy towards self-reliance to survive

- China is focusing its efforts on three important areas in its quest towards self-reliance:

o Raising domestic demand (*i.e.*, consumption)

o Supporting domestic supply (*i.e.*, production)

o Implementing rules governing its new economy for sustainable growth

(The recent flurry of regulations can be divided into the above three buckets)

- China’s authorities make decisions pragmatically by trial and error, reflecting on mistakes and replicating successes nationwide. They value speed and efficiency. This is in contrast to other political models where decisions are made after lengthy open debates and negotiations. This key difference underlies China’s higher regulatory volatility and appearance of randomness.
- China’s successful economic model is now recognized and emulated, including by parts of the developed world. China is not reversing course and, in fact, has become even more open to globalization, private enterprise and foreign investments.
- China’s old economic model of development, while successful, was unbalanced. Increasing US-China competition finally presented the catalyst to implement difficult, but necessary, reforms. This can be seen, as an example, with President Xi’s property taxes which are deeply unpopular among his own party officials.

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CHINA NEWS SPOTLIGHT

China Posts Robust Growth in Factory Output and Consumer Spending: Chinese factory activity and consumer spending were surprisingly robust in October, official monthly figures showed Monday, though fresh signs of weakness in the property sector underscored concerns for the outlook of the world’s second-largest economy. [Read more.](#)

China outbound tourism set to jump more than 25% this year - state media: Chinese outbound tourism numbers are set to jump by more than 25% this year from 2020 but remain "basically at a standstill" compared to pre-pandemic levels, state

broadcaster CCTV reported on Monday, citing official projections. [Read more.](#)

China targets celebrity online information in ramp up of fan culture crackdown:

China's cyberspace regulator said on Tuesday it will tighten oversight over how celebrity information is disseminated online, such as the publishing of their personal details and the placements of their advertisements on internet sites. [Read more.](#)

Alibaba says profit falls 81% as China cracks down on big tech:

Chinese e-commerce leader Alibaba Group said on Thursday that its profit for the most recent quarter tumbled 81 percent as it grappled with a government crackdown on the country's big tech champions. [Read more.](#)

China fines tech giants over anti-monopoly violations:

Chinese tech giants including Alibaba Group and Tencent Holdings were fined Saturday for failing to report corporate acquisitions, adding to an anti-monopoly crackdown by the ruling Communist Party. [Read more.](#)

Aging China outlines plan to improve elderly care services:

China is urging some local governments to embark on pilot programmes next year to improve medical and care services for the elderly, with the goal of rolling out the scheme nationwide in 2023. [Read more.](#)

China's Record-Low Birth Rate Underscores Population Challenges:

China's birth rate dropped to a new low in 2020, confirming the demographic challenge facing the government as it tries to deal with a shrinking labor force and growing population of elderly people. [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.

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