

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@morgancreekc.com.

Best Regards,

Handwritten signature of Mark W. Yusko

Mark W. Yusko
CEO & CIO

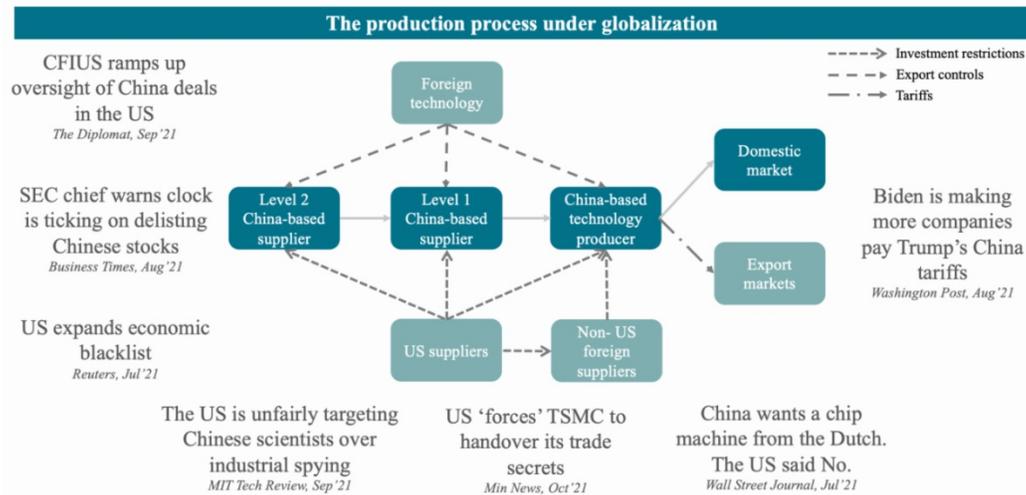
NOTES FROM THE BUND¹

Last week, we commenced a five-week discussion on the recent regulatory changes made by China, and the implications for both China's economy and the broader world economy. We will continue the discussion this week with a focus on the catalyst behind the regulatory changes.

*"Joe Biden is determined that China should not displace America."
-The Economist, July 17, 2021*

The initial hopes that US-China relations would improve, or at least moderate, after a new administration entered the White House were quickly dashed after both countries met in Alaska in March 2021. Since then, overt pressures beginning in trade has spilled over into other areas including technology, capital and talent.

Figure 1: US exerts significant pressures on China's existing economic model²



China has long been the designated “factory of the world.” The chart above illustrates this decades-old model of Chinese manufacturers utilizing foreign inputs (raw material, technology, capital, talent, etc.) to produce goods for exports. This model, underwritten by multinational companies to leverage China’s large labor supply, propelled China to be the 2nd largest economy in the world.

China’s growing economic profile has upset the geopolitical status quo and measures have been applied to unwind the model above: from tariffs making Chinese goods unattractive, to investment and technology export restrictions squeezing Chinese production chains. This playbook is reminiscent of Japan in the late 1980s, which ultimately resulted in Japan’s submission via the Plaza Accords.

It is unlikely given the size of China’s economy that it would acquiesce in the same manner to bring this contest to a close. As a result, China has no alternative but to undergo economic restructuring to survive in this new normal with a goal of self-reliance.

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CHINA NEWS SPOTLIGHT

China says it will release oil reserves according to its needs: China will release crude oil from its reserves according to its needs, a foreign ministry spokesman said on Wednesday, adding that the country was in close communication with oil-producing and oil-consuming countries. [Read more.](#)

US-China tech war: Beijing draws up three-year plan to revamp state technology system: China’s top leadership has approved a three-year plan to revamp its state science and technology system amid intensifying rivalry with the United States, zeroing in on technology as the key to the country’s future. [Read more.](#)

China’s BeiDou in race with Nasa over laser communications in space: China has conducted a pioneering high-speed communication experiment using lasers, rather than the usual radio signals, between satellites in its BeiDou navigation system and ground stations on Earth. [Read more.](#)

How to buy and sell data? Shanghai starts new exchange for trading massive amounts of data like commodities: The Shanghai Data Exchange opened for business on Thursday, marking China's latest attempt to build a vast market for data – dubbed the new oil of the digital economy – which can be sorted, priced and traded like regular commodities. [Read more.](#)

China's Tech Crackdown Took a Starring Role This Earnings Season: It's a multitrillion-dollar question: Will China ease off its crackdown on the country's tech sector? Or will the restrictions be a permanent problem for some of the world's largest companies? [Read more.](#)

China to require mental health screening as part of student health check-ups: China's Ministry of Education (MOE) will include mental health screening as part of the health check-ups required for children to attend school by the end of 2022. [Read more.](#)

China's aging population a 'long-term reality', and its silver economy needs to catch up, State Council says: China has released guidelines to better accommodate the needs of the elderly, in line with the nation's efforts to address its rapidly aging population. [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 U.S. investment restrictions, export controls, and tariffs are [rewiring](#) China's technology-intensive supply chains.

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