

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@morgancreekap.com.

Best Regards,

Handwritten signature of Mark W. Yusko

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

This is the third installment of a four-week discussion on the Chinese political system, and the implications for both China's economy and the broader world economy.

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"One learns the strength of the horse over a long distance; one learns the measure of a person over a long period of time."

Chinese Proverb

China has harnessed its most important resource, its huge population of talent, since time immemorial. In 581, the Chinese introduced the world's first civil service examination system² as a method to identify and recruit talent for its bureaucracy. The exam today is known as the "Guokao" and is administered by the NCSB:

- It is a gruelling five-hour exam comprising of two hours to answer 135 multiple choice questions on topics including language, math, logic, politics, etc; and three hours for essay questions.
- Passing the exams qualify the candidate for a job interview. In 2021, there were 1.0 million applicants who sat through the examination for 25,726 jobs, translating to a 2.5% chance of success.
- Passing the interviews is an admission ticket into a 90 million member strong cadre party, all of whom become competition in the race up the ladder.

Figure 1: The structure of the CCP³



The COD manages deployment of officials, where merit plays a large role:

- Each cadre starts at the bottom of the hierarchy as a grassroots official, or “staff” and has to work his/her way up to the top rank, or “national level principal”. There are 10 levels between the two; and each layer requires multiple years, more examinations and trials.
- Progression goes from managing a county, a city, a small (then large) province, before potential nomination into the politburo and standing committee.
- Every cadre will be grade assessed annually based on an internal evaluation of their track record. Quantitative and qualitative data is collected by the COD for peer reviews, and their peers will vote on cadres to promote.
- As an example, President Xi joined the party in 1974. He would take 4 decades before reaching the top post. His CV is as follows:
 - o Party Secretary of Zhengding Country in 1983 (population: 0.6 million)
 - o Party Secretary of Fuzhou City in 1990 (population: 8.3 million; GDP: \$120 billion)
 - o Governor of Fujian in 2000 (population: 41.5 million; GDP: \$640 billion)
 - o Party Secretary of Zhejiang in 2003 (population: 57.4 million; GDP: \$936 billion)
 - o Party Secretary of Shanghai in 2007 (population: 24.9 million; GDP: \$608 billion)
 - o Vice President of China in 2008
 - o Vice Chairman of Central Military Commission in 2010
 - o President of China in 2012
- Six of the seven members of the Standing Committee elected at the 19th CPC National Congress have the same experience as President Xi running municipalities or provinces which, in terms of population or GDP, are equivalent to multiple nations combined.

This rigorous system has been proven to systematically generate suitable leaders of the highest calibre by field testing their leadership, execution capabilities and morals over long periods of time.⁴

Feedback loops are crucial to the proper functioning of this model. China’s authorities cast their net wide in this instance to encompass all stakeholders they are regulating, whether it be enterprise or citizens. In the case of the former, the authorities do so by releasing draft guidelines and requesting public feedback for important new regulations. For example, [public feedback was solicited](#) for the Personal Information Protection Law (for data privacy) from April 26 through May 28, before the law was passed in August 20. There are also a number of official government open comment channels including [The China SME Information Portal specifically for private businesses](#).

In the case of the latter, the government is the biggest user of survey companies in China and has begun outsourcing citizen satisfaction appraisals to them. The first independent survey⁵ occurred in 2007 and was designed by PPEC to [evaluate the comprehensive performance of local governments in Guangdong](#).⁶ The survey covered almost 24,000 citizens⁷ asking for their opinion on:

- Quality of life - individual and family income, employment opportunity, social order, health care security and natural living environment
- Image and capacity of the government - consistency of government policy, service orientation, service efficiency, integrity of civil servants and fairness of

law enforcement

- Environmental protection measures
- Transparency of government affairs
- Regulation of markets
- Overall satisfaction of government performance
- Many local governments have used this survey to improve their services, with Foshan City taking the initiative and launching a new round of administrative reform⁸, which included local government performance budgeting and increasing financial support in areas receiving a low assessment, such as environmental protection and healthcare. These measures allowed Foshan City to rise in the following year's survey rankings from 5th to 3rd overall, and Lin Yuanhe, Party Secretary of Foshan City (population: 7.1 million) was eventually promoted to be the mayor of Guangzhou City (population: 15.3 million).

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CHINA NEWS SPOTLIGHT

China sees biggest growth in energy and coal use since 2011: China recorded its biggest increase in total energy consumption and coal use in a decade in 2021, as the economy recovered from COVID-19 slowdown a year earlier, data from the country's statistics bureau showed on Monday. [Read more.](#)

China releases 5-year plan for elderly care services: China's State Council has released a plan for the development of the country's elderly care services system during the 14th Five-Year Plan period (2021-2025), in its latest step to implement a national strategy to address population aging. [Read more.](#)

China vows to keep property market stable, meet demand this year: China's housing minister pledged on Thursday to keep the real estate market stable this year and ensure genuine demand for homes is met, after a series of regulations aimed at reining in debt in the sector unsettled buyers and prompted a marked slowdown in the key property sector. [Read more.](#)

Chinese electric car start-up Nio plans to list in Hong Kong on March 10: U.S.-listed Chinese electric car company Nio is set to offer its shares for trading in Hong Kong on March 10, the start-up announced Monday. [Read more.](#)

JD.com Ramps Up Hub Node Data Center Construction for National Project: As an important participant in the new infrastructure construction of China, JD Cloud has completed the layout of over 7,000 data centers around the country, based on its extensive experience in technical facility building and operation management. [Read more.](#)

Harbour BioMed Announces Approval for Phase I Trial of B7H4x4-1BB Bispecific Antibody in Australia: Harbour BioMed ("HBM", HKEX: 02142) announced that, it has been approved by the Institutional Review Boards (the "IRBs") to commence phase I trial of its B7H4x4-1BB bispecific antibody (HBM7008) in Australia. [Read more.](#)

Huadong acquires Asia rights to drugs from Kiniksa in \$662M deal: Huadong Medicine Co. Ltd.'s wholly owned subsidiary Hangzhou Zhongmei Huadong Pharmaceutical Co. Ltd. has acquired Asia-Pacific rights to two drugs from Kiniksa Pharmaceuticals Ltd. in a deal worth up to \$662 million. [Read more.](#)

JW Therapeutics Announces NMPA Acceptance of the Supplemental New Drug Application for Carteyva® in Patients with Relapsed or Refractory Follicular Lymphoma: JW Therapeutics (HKEx: 2126), an independent, innovative biotechnology company focused on developing, manufacturing and commercializing cell immunotherapy products, announced that the National Medical Products Administration (NMPA) of China accepted the supplemental New Drug Application (sNDA) for its anti-CD19 autologous chimeric antigen receptor T (CAR-T) cell immunotherapy product Carteyva® (relmacabtagene autoleucel injection) for the treatment of adult patients with relapsed or refractory follicular lymphoma (r/r FL). [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 The Chinese examination system was [introduced to the West](#) through the reports of European missionaries and diplomats. The British East India Company used a similar method to select its employees and following the company's success, the British government introduced a similar testing system for its civil servants in 1855. The US then adapted it for certain government positions after 1883.

³ [Chinese President Xi Jinping's astonishing rise to become one of the world's most powerful people](#) *ABC News, March 2019*

⁴ As in every system, patronage based on ideology and loyalty also play a part. However, given the wide funnel of officials to choose from who are competing for extremely limited promotion slots annually as described above, there is no need to compromise on quality.

⁵ So noted because it was designed to solicit the opinions of the general public instead of citizens 'handpicked' by the government.

⁶ That is, 21 governments at the city level, and 121 governments at the county level.

⁷ Comprehensive Performance Evaluation of Chinese Local Government: Theoretical Methods and 'Guangdong Experiment', China Economy Publishing House, PPEC 2008.

⁸ Comrade Lin Yuanhe's Speech in the Summary Conference on Implementing 'Honest, Efficient and Service-Oriented' Organisation Work Style Construction Activity in Foshan City. Foshan City Party Committee. 2008. Internal document.

Important Disclosures

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