

## *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](mailto:chinateam@morgancreekap.com).

Best Regards,

Handwritten signature of Mark W. Yusko

Mark W. Yusko  
CEO & CIO

### **NOTES FROM THE BUND<sup>1</sup>**

This is the final installment of a three-week discussion on the concept of Common Prosperity in Chinese culture and how it shapes China's current policies and initiatives.

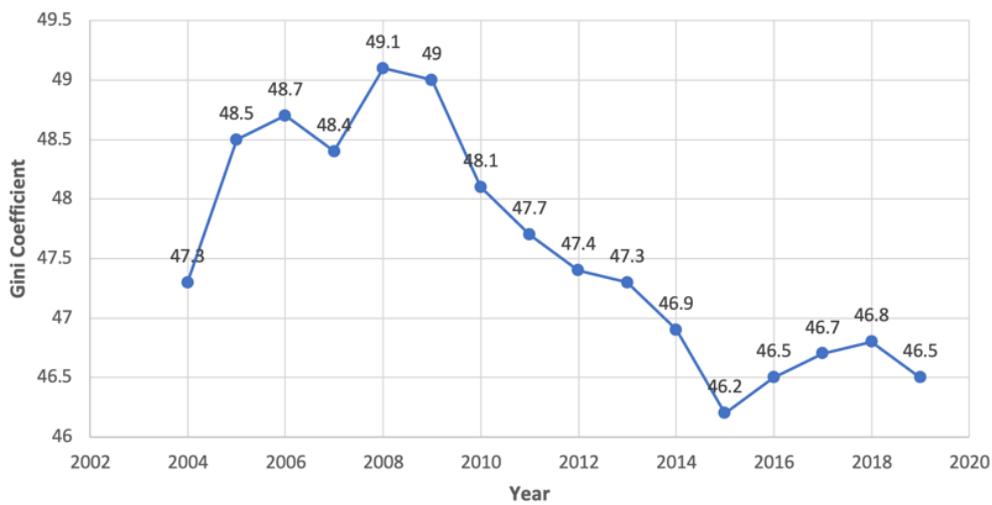
In our last newsletter, we continued a three-part discussion on 'Common Prosperity' where we summarized the policies and goals of the Common Prosperity Plan, as laid out by the Chinese government. We will continue the discussion this week with a focus on why now is a good time for the plan to be put into action, with factors being introduced including-- the state of China's economy today (the country being rich enough to implement these policies; the plan will help solve a wealth gap that exists as a result of China's economic growth) and the country's falling fertility rate, to name a few.

As discussed before, the ideals behind common prosperity program has been part of the blueprint of modern Chinese republic society since its inception. However, past leaders refrained from emphasizing this program because the country was not considered stable and affluent enough to justify redistribution of resources. The rapid growth enjoyed by the Chinese economy in the past few decades has led to increasing concentration of wealth, increasing the need to implement the program to maintain social stability.

Income inequality in a country can be measured using the Gini coefficient, with a higher value suggesting greater income inequality. The value of the Gini coefficient ranges from 0 to 100, with 0 representing perfect income equality with all citizens having equal wealth and 100 representing perfect income inequality such that 100% of wealth being is in hands of 1 person. The world average is 41.1 according to WorldBank which suggests that China has a more unequal income distribution as compared to the world as a whole (see Figure 1). While China's Gini coefficient has fallen in the last decade, it still has a relatively high value of 46.5 in 2019.

**Figure 1: Graph showing the Chinese Gini Coefficient over time**  
(Source: *Statista*)

Gini Coefficient of China over time

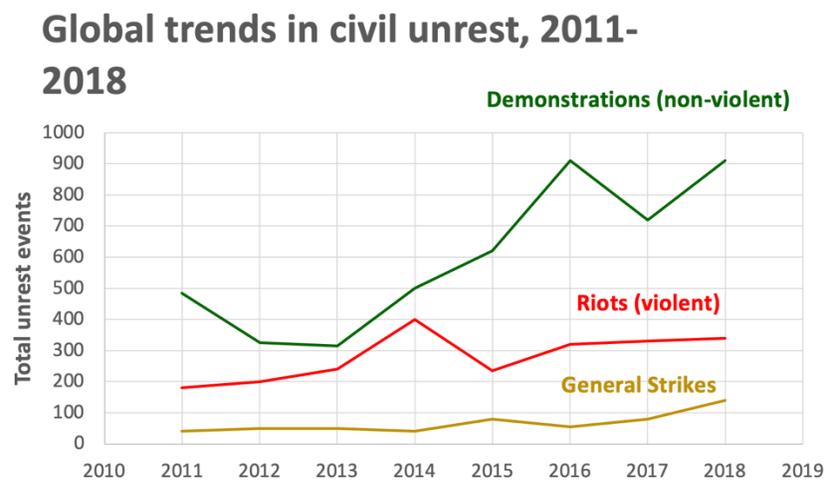


Another way of looking at income inequality is to look at the top and bottom 20 percentiles. According to the CEIC, average income among the top 20 percent of earners in China rose significantly in the last couple of years, while those earning the least did not benefit from the growing prosperity of the country in the same way.

Figure 2: Graph showing diverging incomes in China (Source: Statista)



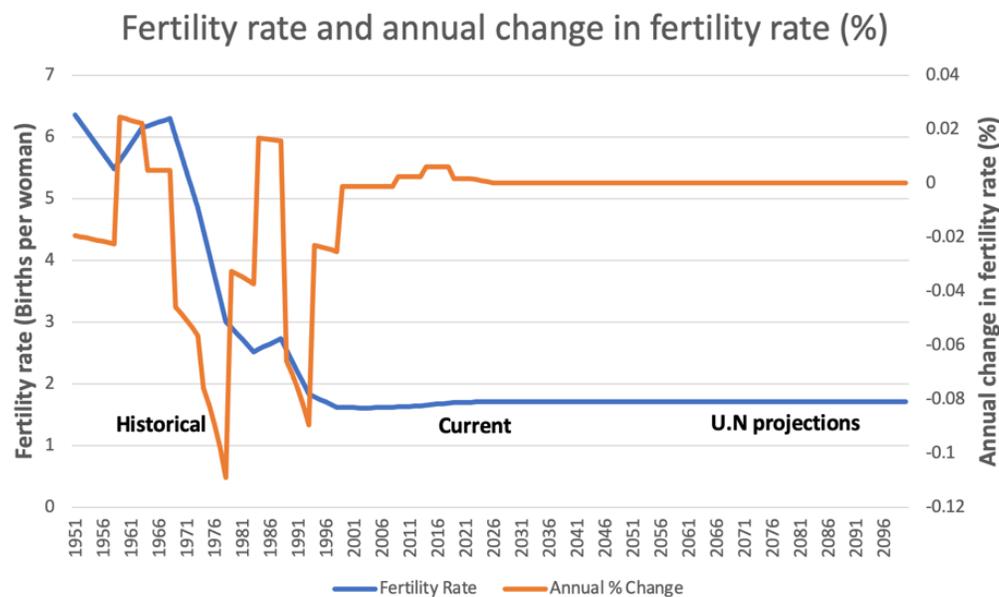
Figure 3: Graph showing global trends in civil unrest (Source: Global Peace Index, 2020)



Increasing inequality can cause many social issues. For example, the incidence of political protests has accelerated worldwide in recent years. Most recently, we witnessed this in Kazakhstan, which saw a massive protest resulting in an overturned government, and more than 225 people dead in the aftermath. The initial spark was over sudden fuel price increases, but the underlying cause was mass dissatisfaction with elites hoarding resources at the expense of everyone else. In 2019, we saw a similar story unfolding in Chile, with huge protests over a 4% hike in subway fares. Once again, the underlying anger was stoked by inequality, in which Chile ranks among the highest in OECD countries. Covid has further widened disparities in China, and the government is determined to avoid the potentially violent consequences of widening inequality.

Furthermore, Chinese society is aging and the government seeks to address the Chinese demographic deficit by increasing the quality of life of its citizens which is expected to have a pro-natalist effect on Chinese society.

**Figure 4: Graph showing how China's fertility rate is on a downtrend (data from 1950-2022) (Source: United Nations, 2022)**



As can be seen in the figure above, China's fertility rate has fallen and people are avoiding having kids due to intense competition and struggles faced by the middle class. We believe a strengthening middle class will give people the financial resources to raise children and thus will lead to an increase in the fertility rate of the population.

Additionally, China's economic growth has been spatially uneven. The export-oriented growth policies have led to rapid rise in development of urban areas but rural areas have been left behind. One of the pillars of common prosperity program is the revitalization of rural sectors.

[Click here](#) to see back issues of New China Perspectives

## CHINA NEWS SPOTLIGHT

**Boeing 737 passenger jet crashes in China with 132 people on board:** A China Eastern Airlines Boeing 737-800 with 132 people on board plunged midflight and crashed in a mountainous area of southern China on Monday, according to officials and flight-tracking data. [Read more.](#)

**U.S. Renews Tariff Exemptions for Some Chinese Imports:** WASHINGTON—The Biden administration said Wednesday that it will renew tariff waivers for 352 categories of goods from China after previously granted exemptions expired. [Read more.](#)

**China's ZTE exits probation after U.S. court ruling, shares soar:** China's ZTE Corp (000063.SZ), saw its shares soar as much as 60% in Hong Kong on Tuesday after the telecommunications equipment maker completed five years of probation in the United States, marking the end of a U.S. criminal case. [Read more.](#)

**Xiaomi ramps up stock buyback over 'confidence in business':** Chinese smartphone maker Xiaomi will buy back shares for up to HK\$10 billion (\$1.28 billion), a move that demonstrates the confidence in its own business outlook and prospects and will ultimately benefit the company and create value for shareholders, the firm announced on Tuesday. [Read more.](#)

**Intervapor®, thermal vapor treatment system, approved for marketing in China:** Broncus(02216HK) today is pleased to announce that InterVapor® (including InterVapor Generator and InterVapor Catheter, the "InterVapor®"), the Company's thermal vapor treatment system, has been granted approval by the National Medical Products Administration of China (the "NMPA"), denoting the official commercialization of the world's only such product in China. [Read more.](#)

**China's NMPA Grants Greater Access to Rheumatology Biosimilars:** Since the start of 2022, China's National Medicinal Products Administration (NMPA) has made strides to increase access to biosimilar products for various rheumatic conditions, including 3 newly approved biosimilars and 1 biosimilar receiving approval for an expanded indication. [Read more.](#)

**U.S. FDA declines to approve Lilly/Innovent lung cancer drug:** The U.S. Food and Drug Administration has declined to approve Eli Lilly (LLY.N) and partner Innovent Biologics Inc's (1801.HK) lung cancer drug that had been studied only in China, Lilly said on Thursday. [Read more.](#)

<sup>1</sup> 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.

---

#### **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.

---