

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@morgancreekc.com.

Best Regards,

Handwritten signature of Mark W. Yusko

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

This is the first installment of a two-week discussion on the data security laws recently passed by China, and the potential impact on global technology companies.

China most recently passed a series of data security laws which will have a significant impact on Chinese technology companies. The next couple of newsletters will explore the below in greater detail. The catalyst and process in which the data law was passed:

- The background and highlights of the three data laws (the Cybersecurity Law, the Data Security Law, and the Personal Information Protection Law ("PIPL"));
- The market's reaction towards the laws; and
- The potential implications for the Chinese technology industry and foreign investors.

The catalyst for the data security law

The clarified data security law is part of a wider series of regulations passed since the mid-2010s to regulate the rapid growth of IT and data infrastructure in the country. This most recent addition to the law allows the government an additional channel to

address the growing monopolistic power of IT giants including Alibaba in China.

The immediate trigger for this is widely attributed to the data privacy scandal of Ant Financial (Alibaba's payment affiliate) at the end of 2017 when Alipay enrolled users into its credit scoring system without their consent. This unauthorized sharing of data with partners prompted the Cyberspace Administration of China to admonish Ant Financial and led to the stricter data security laws.



Figure 1: Evolutionary process of Chinese Data Security Law (Chongo Kabange, 2021; Chen, 2021)

The data security law

There are three separate but related laws: the Cybersecurity Law (passed June 2017), the Data Security Law (passed September 2021), and the Personal Information Protection Law (“PIPL”) (passed November 2021):

1. *Cybersecurity law*: The cybersecurity law seeks to secure Chinese cyberspace by regulating network construction, operation, and maintenance. The main target group is network operators and applies only to firms operating within China. Besides monitoring cybersecurity, China also considers cyberspace sovereignty, national security, and overall public interest while passing these regulations.

2. *Personal Information Protection Law (“PIPL”)*: The PIPL regulates the collection,

storage and processing of personal information to protect Chinese residents. China's PIPL is one of the strictest data security laws in the world. [Highlights of the law include:](#)

- Detailed rules for cross-border transfers of data where: (i) foreign judicial / law enforcement agency would require approval from the Chinese government to access personal data within China; (ii) overseas personal information handlers must establish representatives dedicated entities within China to liaise with local authorities to communicate how they are processing Chinese citizens' data.
- Reinforcing informed consent for data collection and processing by requiring that each data recipient be specifically named in contracts with the consumer. Process transfers are exempted from this rule.
- Establishing a separate set of rules to be followed for AI / decision making tools.

3. *Data Security Law ("DSL")*: The law aims to ensure data security for all data (not just personal data), and regulates data security, data collection, and processing. It also regulates cross-border data transfer, with special restrictions for data defined as "important data" or "critical information infrastructure".

- The Data Security Law emphasizes ethical concerns. It aims to encourage organizations to consider the well-being of people by incorporating social morality and ethics and by promoting economic and social development.
- The law has extra-territorial jurisdiction and is active both within and outside China.
- The penalties for the violation of the Data security law are extremely strict, including, but not limited to, financial fines for firms as well as executives in charge, and suspension and revocation of business licenses.

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CHINA NEWS SPOTLIGHT

China's Green Bonds Are Cheaper Than Almost Everywhere Else: Compared with the rest of the world, China's green bonds are on sale. [Read more.](#)

Property developer China Vanke expects 2022 profit to stabilise: China Vanke (000002.SZ), the country's No.2 property developer by sales, said on Thursday it expects its net profit to stabilise in 2022 after Chairman Yu Liang apologised to investors for the 45.7% slump seen last year. [Read more.](#)

China Chipmaker's Buyer Missed \$9 Billion Payment Deadline: The winner of a bidding process for Tsinghua Unigroup Co. has missed its March 31 deadline to complete a 60 billion yuan (\$9.4 billion) takeover payment, according to people familiar with the matter. [Read more.](#)

Huawei Promotes Founder's Daughter Meng to Top Shared Leadership Post: Huawei Technologies Co. has promoted finance chief Meng Wanzhou to one of the tech giant's top leadership positions, the latest sign of her rising stature six months after a deal with the U.S. releasing her from detention in Canada. [Read more.](#)

InnoCare Announces Approval of Clinical Trial of TYK2 JH2 Allosteric Inhibitor

ICP-488 in China: InnoCare Pharma (HKEX: 09969) announced today that the company has received Investigational New Drug (IND) approval of clinical trial from the NMPA (National Medical Products Administration) for its TYK2 JH2 allosteric inhibitor ICP-488, which is the Company's third innovative drug for the treatment of autoimmune diseases to enter the clinical stage. [Read more.](#)

Immorna Biotherapeutics, Inc. Receives IND Clearance to Conduct FIH Study of JCXH-211, the First-in-Class Self-replicating mRNA: Immorna Biotherapeutics, Inc. (Immorna), a rapidly-expanding biotechnology company developing both self-replicating and conventional mRNA-based therapeutics and vaccines, announced today that the U.S. Food and Drug Administration (FDA) has cleared its investigational new drug (IND) application for JCXH-211, a novel self-replicating mRNA encoding human interleukin (IL)-12 protein. [Read more.](#)

Innovent and Lilly expand partnership in oncology: China's Innovent Biologics (HKEX: 01801) saw its shares rise 6.9% to HK\$28.55 in late trading today, after it announced an expansion of its strategic collaboration with US pharma major Eli Lilly (NYSE: LLY). [Read more.](#)

CanSinoBIO's mRNA COVID vaccine candidate cleared for trials in China: Chinese vaccine developer CanSino Biologics Inc (CanSinoBIO) said on Monday its potential COVID-19 vaccine using the messenger RNA (mRNA) technology has been approved by China's medical products regulator to enter clinical trials. [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.

Important Disclosures

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