

MORGAN CREEK

CAPITAL MANAGEMENT

ALTERNATIVE THINKING ABOUT INVESTMENTS

New China Perspectives



Welcome to the latest issue of Morgan Creek's **New China Perspectives**. This issue 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. To learn more about our team and investment offerings, please email chinateam@morgancreekcip.com.

Best Regards,

Handwritten signature of Mark W. Yusko in black ink.

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

"The empire, long united, must divide: long divided, must unite. Thus it has ever been."
- Luo Guanzhong, *Romance of the Three Kingdoms*

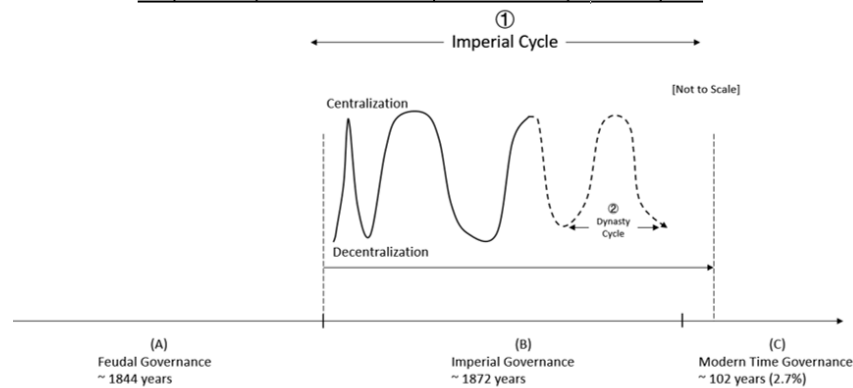
This is the second part in a series on a discussion on cycles. In the prior newsletter, we introduced the idea of a universal cycle that human organizations (political, economic and otherwise) tend to undergo, describe the general process and postulated about the reasons. In this newsletter, we seek to further flesh out the cycle from the political dimension, with China as a case study.

China is the world's oldest continuous civilization.² This long uninterrupted³ history has created a wealth of data to analyze. In its almost 2,000 years of imperial rule, China saw the rise and fall of ten dynasties, which endured an average of 208 years.

History of China's dynasties

Dynasty	Start	End	Length	Average
Xia	-2100	-1600	500	Feudal governance
Shang	-1600	-1050	550	
Zhou ⁴	-1050	-256	794	
Qin	-221	-206	15	
Han	-206	220	426	Imperial governance
<i>Disunity</i> ⁵	220	265		
Jin	265	420	155	
<i>Disunity</i> ⁶	420	589		
Sui	589	618	37	
Tang	618	906	288	
<i>Disunity</i> ⁷	907	960		
Song	960	1279	319	208
Yuan	1279	1368	89	
Ming	1468	1644	276	Modern governance
Qing	1644	1911	267	
ROC ⁸	1912	1949	37	
PRC ⁹	1949	Present		

Graphical representation of imperial China's political cycles



China's various political systems are vast and complex, with many nuances. We have identified two cycles and a potential catalyst, which might be instructive for our purposes: a micro cycle, which traces the lifecycle of a single dynasty; a macro cycle, which follows the rise and fall of collective dynasties; and a catalyst, which is a paradigm shift in fundamental ideas (i.e. governance systems).

Some observations:

Catalyst: The paradigm shift in governance systems

- China has undergone three paradigm shifts in governance models over its long history: (A) feudal system¹⁰, (B) imperial system¹¹ and (C) modern system¹²
- Each predecessor system served China over 1,800 years (albeit with a change of leadership every so often) before a paradigm shift in the governance systems
- It is interesting to note that modern political China (at a little over a century if measured from the fall of the Qing) accounts for less than 3% of China's recorded history. For additional context, the US at 246 years old accounts for a little over 6%

Macro cycle: Characterized by constant tension between centralization and decentralization, order and disorder

- The macro cycle comprises the collection of individual dynasties within each governance system.
- All dynasties rise, crest, and ultimately decline. Within the imperial system, the longest dynasty is the Han at over 400 years; the average dynasty endured for 208 years.
- The period in between successive dynasties is characterized by decentralization and disorder, where upon a battle ensues for supremacy (centralization and order) once more; and so the cycle renews.

Micro cycle: Marked by cycles of birth and decay

- The micro cycle is concerned with understanding the rise and fall of dynasties.

Birth

- A new dynasty typically rises from the ashes of its predecessor. Throughout most of human history, this usually occurs through force, and any imbalances are usually erased by the conflict.
- All strata of society align once more to rebuild the nation.
- Through luck, hard work, talent, skill and/or networks, an elite class will once again emerge over time (this elite class may be deserved if the elites create real value for all of society).

Decay

- As the elite class gathers more influence, the tendency is to form factions with the intention to protect their interest and grow their power and influence. This is problematic because (at best) there is no value creation in this action for society and (at worst) this corruption leads to the erosion of trust in the dynasty.
- Left unchecked, inequality grows exponentially. Unless the masses are somehow capable of (even a partial) resetting of the system, at a certain point the stage is set for the fall and rise of another dynasty.

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CHINA NEWS SPOTLIGHT

China's 'Two Sessions' 2023: Premier Li Qiang Pledges Support for Private Sector, Takes Aim at Past 'Inappropriate' Talk: China's new premier, Li Qiang, holds his first press conference following the closing ceremony of the National People's Congress on Monday. As a long-time aide to President Xi Jinping, Li is expected to have more leeway to express his thoughts in public without being seen as a challenge to Xi. [Read More.](#)

China-Brokered Deal Between Iran, Saudi Arabia Marks a New Middle East: China's brokering of a detente between Iran and Saudi Arabia accelerates a geopolitical realignment in the Middle East, as rivalries that erupted during the Arab Spring fade and outside powers besides the U.S. vie for influence. [Read More.](#)

China Shakes Up Government to Counter Financial Risks and US Tech Restrictions : China has announced a major government overhaul that will shakeup the oversight of its financial system and aims to boost its technological self-reliance, as a tech war with the United States intensifies. The change to the State Council, the country's cabinet, is the biggest in years and the third since Chinese leader Xi Jinping took power in 2013. [Read More.](#)

Xi Adds Oversight Risk to China EV Battery Growth Plans: The world's largest battery maker CATL and its rivals in China were put on notice this week with a message from the top. When Chinese President Xi Jinping said he was "both pleased and concerned" about CATL's (300750.SZ) electric vehicle (EV) battery dominance, industry executives and regulators heard a caution to be ready to throttle back expansion to keep the current boom from collapsing in a bust of overcapacity. [Read More.](#)

Autonomous Driving Startup Eyes US\$1b IPO: China's autonomous driving startup Momenta is reportedly considering a Hong Kong or US initial public offering as soon as this year that could raise up to US\$1 billion (HK\$7.8 billion). The General Motors-backed firm is working with financial advisors on the possible deal, according to Reuters. [Read More.](#)

Indonesia not Cutting China Out in EV Hub Plan, Minister Sandiaga Uno Says: Indonesia hopes to continue attracting Chinese investments in its fast-rising electric vehicles (EV) sector and other areas of the economy, and is assessing complaints about poor workplace conditions by Chinese workers, a top official has said. [Read More.](#)

Chinese Study Reports Promising Early Data on Toripalimab in TNBC: Anti-PD-1 monoclonal antibody toripalimab combined with paclitaxel appears to prolong survival in patients with stage IV or recurrent/metastatic triple-negative breast cancer (TNBC), according a press release from Shanghai Junshi Biosciences on findings from a prespecified interim analysis of the phase 3 TORCHLIGHT study (NCT04085276). [Read More.](#)

invoX Pharma Completes Acquisition of F-star Therapeutics, Inc.: F-star is currently executing Phase 2 trials in Europe and the U.S. in patients with PD-1 acquired resistant head and neck cancer, and in checkpoint inhibitor-naïve patients with non-small cell lung cancer (NSCLC) and diffuse large B-cell lymphoma (DLBCL). The Company also has further earlier clinical studies underway with patients in both geographies. [Read More.](#)

Allorion Therapeutics, a Next-Generation Precision Medicine Company Focusing on Oncology and Autoimmune Diseases, Raises \$50 Million Series B Financing: Allorion Therapeutics ("Allorion"), a biotech company focusing on next-generation precision medicine for oncology and autoimmune diseases, announces the completion of a \$50 million Series B financing round, co-led by INCE Capital and Qiming Venture Partners, with participation from TF Capital, Long River Investment (LRI), 3SBio, Octagon Capital, and Elikon Venture. Since its

establishment in July 2020, Allorion has raised over \$100 million from reputable institutional biotech investors.
[Read More.](#)

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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 Source: The oldest living civilization, American Historical Association

³ China was conquered twice: during the Yuan (1271-1368) by Mongols and Qing dynasty (1644-1912) by Manchus. Interestingly, in both instances, the foreign invaders adopted and embraced Chinese traditions, leaving Chinese culture and practices mostly intact.

⁴ Zhou dynasty was not as united as it appears, with massive internal conflicts beginning during the Spring and Autumn Period (-770 to -476) and continuing onto the Warring States Period (-476 to -221). The former featured over 100 vassal states fighting for supremacy; by the time of the latter period, only 7 vassal states were left in contention, with one ultimately unifying them all.

⁵ Three Kingdoms Period

⁶ Northern & Southern Dynasties Period

⁷ Five Dynasties & Ten Kingdoms

⁸ Republic of China

⁹ People’s Republic of China

¹⁰ The feudal system is designed in a largely similar format to medieval Europe (which remained intact in the latter regions until the 15th century), whereby the institutions of monarchs, lords, vassals and fiefs were adopted.

¹¹ The imperial system can be described as a monarchical federalist bureaucracy, where the country was run by state officials who were selected largely on the basis of merit (civil examination) and reported up the hierarchy with the emperor the ultimate authority.

¹² The foundation of the modern system was established on political ideas imported from abroad, but gradually adjusted for local conditions. China briefly flirted with democracy after the fall of the Qing dynasty with Dr. Sun Yat Sen at the helm for a little over three months. Unfortunately the situation proved untenable given the external environment of the times and devolved into anarchy. In 1921, the Communist Party of China (“CPC”) was formed and in 1949 took control over China.

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