

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

In the prior newsletter we discussed how China's current rise, when viewed through the lens of its past, has not been surprising since the nation has dominated the global economic landscape over large swaths of human history. We submit that China's economic resilience – it is the only country to have recovered multiple times after great catastrophes – may be a function of its massive scale, genetic, and more importantly, cultural homogeneity.

In this newsletter, we will postulate as to the reasons why we believe China is uniquely homogeneous. We will also briefly contrast China's progress to date with India, which has the same scale as China but is much more culturally diverse.

China, while home to 56 distinct ethnic groups, is overwhelmingly Han with 92% of its population belonging to this particular cluster². No other major ethnic group in the world comes close to this, at least on such a massive level as China. How did China come to be so homogeneous?

Scholars have offered up numerous possible explanations, including the national adoption of Confucianism, which also strongly influenced Korean and Japanese culture – both incidentally also highly homogeneous societies, albeit on a much smaller scale.

Confucianism, the thinking goes, is a political philosophy that deeply embeds the idea of a unified China, and the inculcation begins almost from birth. Since the 13th century when it was written,

Han children are taught to memorize the Three Character Classic (*San Zi Jing*), a series of verses that transmits Confucianist ideals of society being a big happy family. That is, at the one end, we have the basic family unit with the father as the “head”; at the other, we have the state with the authorities as the “leaders,” and accepting this Confucianist leads to a harmonious and prosperous society.

George Yeo, a prominent Singaporean ex-politician and a keen student of history, offers additional musings on this topic by further reducing this question to its most basic building blocks. Confucianism may have been the glue that has tied countless Chinese generations together over the ages, but what has *enabled* the broad and persistent transmission of this philosophy over the entirety of its vast population? He attributes this to two factors.

- China’s distinctive and mostly intact language. Although the written language has evolved over time, the principles along with the symbols and characters have remained the same, allowing for the *digital* storage of information, knowledge and values across time.
- China’s discovery and over 600-year monopoly of papermaking and printing technology, allowing for the cost-effective *physical* storage and dissemination of information, knowledge and values.

Chinese written language

- Chinese characters are ideographic rather than alphabetic and as such codes for meaning as opposed to sound. The relatively fixed value of meaning over time means that a modern Chinese person today can assess and attain a basic understanding of ancient Chinese texts (with some guidance) the way for instance a modern Italian is unable to with Latin. This shared history allows information, knowledge and cultural values to be stored and transmitted over long periods of time.
- Written Chinese, because of its pictorial nature, may permit children to learn (i.e., recognize characters) more easily. This is the reverse for adults, who may find it more difficult to “memorize” characters. The implication being that it is “hard to become Chinese; [and] easier to be born into it,” which may explain China’s historical (and we would argue current) reticence in aggressive expansion of its territorial boundaries relative to its more adventurous Western peers – a topic of discussion for the next newsletter.

Papermaking and printing technology

- Papermaking and the printing press are considered two of ancient China’s four great inventions, the former of which was invented almost two thousand years ago. As a data storage medium, paper is orders of magnitude superior to other media like papyrus or parchment. This is primarily due to the vast difference in cost of production and transportability and therefore ultimate accessibility to the masses.
- As an aside, both technologies allowed for dramatic societal improvement as the masses became more knowledgeable. Papermaking technology left China in the 8th century, after the defeat of the Tang army by the Abbasids where Chinese prisoners of war taught the Islamic world how to make paper.³ Shortly after, the region entered its Golden Age which was sustained for over 600 years (8th century to 13th century).⁴ By the 13th century, the technology leaked into Italy and started to spread more broadly across Europe, launching first the Italian Renaissance, then the Scientific and Industrial Revolution.⁵
- China had a 600-year head start over the rest of the world with this technology that it utilized to further propagate philosophies like Confucianism to greater unify its population.
- Unlike other regions in the world, Chinese civilization was united by a single corpus of history and literature. Even when China was conquered by foreign invaders, as happened a

few times in its history (most notably during the Yuan and Qing dynasties), the conquerors were gradually assimilated and ended up adopting Han customs, languages and surnames leaving China culturally intact. As a result, China's literature is "one... [and] all Chinese share the same historical romances and heroes, whereas Europe and South Asia have a vast pantheon."⁶

India is not as homogeneous as China

India, the only other nation that can rival China in scale, has a very rich history and culture as well, but it is much more diverse than China. Lee Kuan Yew, the founding father of Singapore and a well-respected global statesman who met and knew every Prime Minister of independent India⁷ once remarked that India was "not a real country...[but] 32 separate nations that happened to be arrayed along the British rail line."⁸

	China	India
Ethnic Groups	56	2000
Languages	10 ⁹	121 ¹⁰

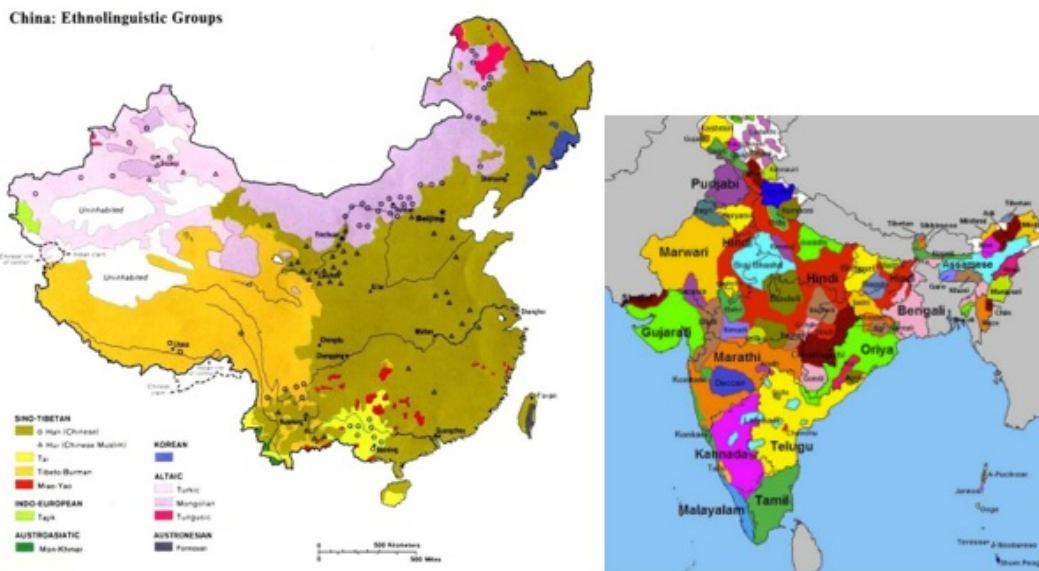


Figure 3: China vs India Ethnolinguistic groups^{11,12}

According to Lee Kuan Yew, India's diversity makes it difficult to govern. If Prime Minister Modi makes a speech in Hindi, he can reach 530 million people¹³, or slightly less than half the population; if he speaks English, perhaps 10% and so on, as illustrated by the chart below. He contrasts this with China where if President Xi speaks, about 80%¹⁴ of the population can understand him. The ethnolinguistic diversity may have led to a low "state capacity" – the ability of the state to effectively design and implement public policies.¹⁵

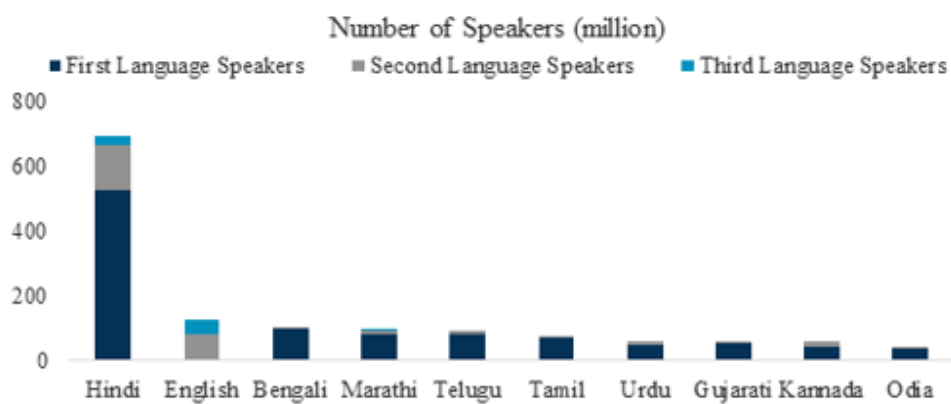


Figure 4: India's Top 10 most spoken languages ¹⁶

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CHINA NEWS SPOTLIGHT

Why China's Yuan May Stay Weak in 2024, Regardless of any US Fed Interest Rate Cuts: China's yuan could stay weak against the US dollar next year, according to analysts, even though expectations are higher for an interest-rate cut from the US Federal Reserve that could help the world's second largest economy ease its capital-outflow pressure. [Read More.](#)

China Proposes Trading Cost Cuts for Mutual Funds, to Regulate Commissions: China's securities regulator has published draft rules aimed at cutting trading commissions for mutual funds and addressing the conflict of interest between the securities trading and fund sales businesses of brokerages, the latest reform to the \$3.8 trillion mutual fund industry. The China Securities Regulatory Commission (CSRC) said the proposals were designed to protect investors and better regulate the way fund managers allocate trading commissions. [Read More.](#)

Saudi Investment Minister Meets Chinese Commerce and Industry Chiefs : Saudi Arabia's investment minister met with China's commerce and industry chiefs in Beijing on Sunday and discussed expanding cooperation in trade, investment and technology, the Chinese ministries said. China is willing to work with Saudi Arabia to jointly promote China's Belt and Road infrastructure investment program and Saudi Arabia's "Vision 2030" initiative, the ministry quoted Commerce Minister Wang Wentao as saying after the meeting with Saudi Investment Minister Khalid Al-Falih, adding that the two countries would also expand cooperation in energy and resources, infrastructure and technology. [Read More.](#)

China's Livestream Shopping is Booming, Fueling New Tech such as Avatars and AI: Livestream shopping is taking off in China, driving development of new tech products such as virtual human streamers and mobile data packages. It's an attempt to monetize — and innovate — in one of the few bright spots for an economy that's largely slowing in growth. Livestreaming e-commerce saw sales surge by 19% during the latest Singles Day shopping festival in November, while sales via traditional e-commerce dropped by 1%, according to McKinsey analysis. [Read More.](#)

China Sees Surge in Value of Semiconductor-manufacturing Equipment Orders Amid Latest US Export Controls, as Chip Imports Post Mild Recovery: China's imports of semiconductor-manufacturing equipment, the prime target of the United States government's updated tech export controls, surged in value by nearly 80 per cent in October from a year earlier, according to the mainland's latest customs data. Imports of various chip-making tools - including those used to

manufacture silicon wafers, integrated circuits (ICs) and flat-panel displays - totaled US\$4.3 billion in October, up from US\$2.4 billion in the same period last year, customs data showed. [Read More.](#)

Cop28: China ‘Would like to see Agreement to Substitute Renewables for Fossil Fuels: China would like to see nations agree to substitute renewable energy for fossil fuels, the country’s chief climate official has said, as nations wrangled over the weekend on the wording of a deal on the climate crisis. Xie Zhenhua, China’s climate envoy, would not be explicit on whether China supported or opposed a phase-out of fossil fuels, which more than 100 governments are pushing for at crucial climate talks, the Cop28 UN summit. [Read More.](#)

China Says Tax Breaks to Stay for Over 90% of New Energy Vehicles: More than 90% of China's existing new energy vehicle (NEV) models will continue to receive tax breaks on purchases, under new technical requirements unveiled on Monday, China's industry ministry said. The technical requirements for NEV eligibility for purchase tax exemptions from 2024 state that pure electric cars should have a driving range of at least 200 kilometres per charge while plug-in hybrid cars should be able to run at least 43 kilometres on electricity, the Ministry of Industry and Information Technology said in a statement. [Read More.](#)

China’s Electricity Pricing Shifts in Blow to Solar Power, Boon for Batteries: China is changing its power system in ways that reduce payments to solar providers while making energy storage more profitable, as it seeks to digest an unprecedented boom in new solar panels across the country. At least 20 of China’s 35 provinces and regions have adopted electricity rate regimes that reduce prices in the middle of the day and raise them in peak morning and evening hours, according to trade publication International Energy Network. [Read More.](#)

¹The 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: Chinese Ethnic Groups: Overview Statistics; <https://guides.lib.unc.edu>

³ Source: The golden age of Islam; <https://www.khanacademy.org>

⁴ Source: Islamic Golden Age; <https://en.wikipedia.org>

⁵ Source: 7 Ways the Printing Press Changed the World; <https://www.history.com>; Mar. 27th, 2023

⁶ Source: George Yeo. (2022). Musings – Series One

⁷ Source: Lee Kuan Yew Believed in India; <https://thediplomat.com>; Mar. 26th, 2015

⁸ Source: Remembering Lee Kuan Yew and What He Had to Say About India; <https://www.thequint.com>; Mar. 23th, 2016

⁹ Source: The Many Dialects of China; <https://asiasociety.org>

¹⁰ Source: How Many Languages Are In India? Which Should You Target? <https://rubric.com>; Dec. 1st, 2022

¹¹ Source: Is there a dominant ethnic group in India? How do various ethnicities treat each other in India? <https://www.quora.com>

¹² Source: List of ethnic groups in China; <https://en.wikipedia.org>

¹³ Source: In India, who speaks in English, and where? <https://www.livemint.com>; May. 14th, 2019

¹⁴ Source: Chinese dialects in decline as government enforces Mandarin; <https://www.theguardian.com>; Jan. 16th, 2022

¹⁵ Source: Weak Public Institutions Behind India’s Low State Capacity; <https://carnegieendowment.org>; May. 15th, 2017

¹⁶ Source: In India, who speaks in English, and where? <https://www.livemint.com>; May. 14th, 2019

Important Disclosures

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