

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

"China is a sleeping giant. Let her sleep, for when she wakes, she will shake the world."

-Napoleon Bonaparte

China's rapid rise over the past four decades has unbalanced the global system established after World War II. Detractors of China often adopt a zero-sum mindset when discussing this phenomenon, arguing that its ascent has come at the expense of other nations. Some go further, declaring that China's end game is to dethrone the incumbents and dominate the globe.

We believe the reality to be more nuanced.

China's rise has been economically beneficial for the world as it has expanded the pie for all. In fact, China's average contribution to global economic growth ranked first across the world, exceeding 30% on average between 2013-2021².

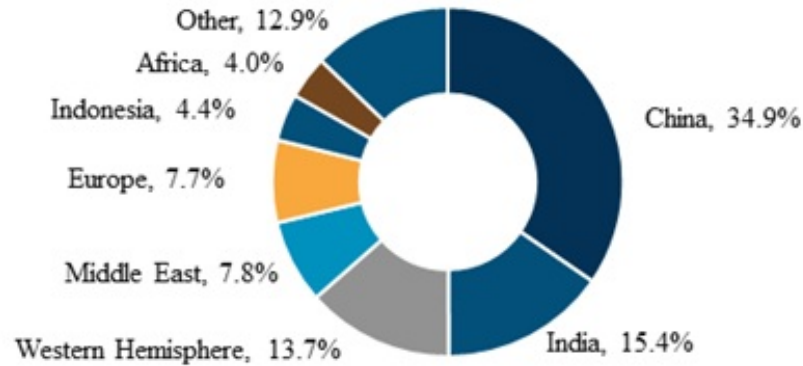


Figure 1: China continues to contribute to global growth

By any measure, the pace and scale of China’s ascent has been immense. Yet it is puzzling to some that its rise has not been accompanied, at least to date, by the typical colonization or wars that have defined the rise of previous empires across history like that of Athens, Rome, Ottoman, Great Britain or modern Japan.

In the next newsletters, we will discuss why we believe:

- China’s rise, if viewed through the lens of its own past, is not unexpected. When the country has been able to mobilize its tremendous resources, as it has quite a few times in its long history, it has been capable of strong economic progress. In fact, for much of human history until the 19th century, China was the world’s largest economy³.
- China’s ability to rebound and regain its position of global economic leadership time and again, after significant natural and/or man-made catastrophes, (floods, famine, civil wars, etc.) is unmatched by other nations in history.
- The secret to China’s national longevity and economic success – China is the longest continual civilization– may lie in its: 1) scale, and 2) homogeneity, which is underpinned by its written language and its monopoly on paper.
 - o Most prior empires, apart from India, did not have inherent scale. Many expanded by engaging in warfare, which is unsustainable on multiple levels over the long term.
 - o India is a civilization that has scale like China but is far less homogeneous.
- China’s insistence on maintaining cultural homogeneity has explained its relative reticence (perhaps even disinterest) in territorial expansions, especially compared to its more adventurous Western peers.

China is the only country in history to return to a top economic position after suffering from complete collapse. We believe this is due to its size and population cohesion.

Jim Rogers, co-founder of the Quantum fund alongside George Soros, remarked on this unique phenomenon in several interviews⁴:

“In world history, Rome was great once. Egypt was great once. Great Britain was great once. But China’s been great *three or four times* ... [she has] also collapsed three or four times... but rose to the top again...no one has else has [accomplished] it...[and] it’s happening again.”

China’s economic power is but simple arithmetic given the sheer size of its population. Over long swaths of human history, it was the largest economy in the world. In that vein, China’s re-emergence as a global titan was less a matter of *if*, but *when*. This is especially so after China successfully embarked on its own industrial revolution and rapidly narrowed its labour productivity and technological gap vis a vis its advanced Western peers.

Size matters. Empires are powerful because they can command and exploit vast natural and human

resources. Where China has a massive indigenous population to draw from, other historical empires had to attain their scale primarily by right of conquest. Indeed, many of the great empires were controlled by a small population:

- The Romans accounted for 19% of their empire at the peak ⁵
- The Turks accounted for 40% of their Ottoman empire in 1844, around its peak ⁶
- The British accounted for 10% of their empire in 1913 ⁷

However, acquiring scale via conquest and exploitation is unsustainable. Eventually unchecked corruption or military overreach (usually both) destabilizes and inevitably topples the empire. Once the regime loses their colonies, it is typically very difficult to reunify them. This is partly due to the negative impact most occupations have on the native populations, but it may also be due to the fundamental ethno-cultural-religious divides that exist between the ruled and their foreign rulers.

China, however, largely possesses a homogeneous people. At the peak of its land empire under the Qing, China was 80%⁸ Han⁹. A research paper posted on the scientific journal Nature studied three Chinese ethnic groups and concluded that the [Han ethnicity displayed high genetic homogeneity all across China](#). Han culture is even more pervasive than its genes in China. Of the 12 major dynasties in China, only 2 were non-Han, and they were all eventually assimilated into the Chinese system.

A comparative analysis of China's Han dynasty with that of the Roman Empire highlights this interesting phenomenon. This exercise holds much appeal to historians as both these civilizations existed contemporaneously and dominated their respective regions for centuries before dissolving. Both empires began trying to regain control of lost territories, but while China had gone on to do so multiple times after the rise of its various dynasties, Europe never quite succeeded despite attempts by the likes of Charlemagne, Napoleon and Hitler. The European Union today is a loose confederation of groups and at only three decades old, it is still an experiment in progress.

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CHINA NEWS SPOTLIGHT

China Factory Activity Surprisingly Expands in November, Hits 3-month High: China's factory activity unexpectedly expanded in November, driven by rising orders, a private survey showed on Friday, but sluggish external demand continues to weigh on manufacturers. The Caixin/S&P Global manufacturing purchasing managers' index (PMI) rose to 50.7 in November from a 49.5 reading in October, marking the fastest expansion in three months and surpassing analysts' forecasts of 49.8. The 50-point mark separates growth from contraction. [Read More.](#)

China Has More Space to Cut Reserve Ratio Instead of Interest Rates, says ex-official: China is likely to implement proactive fiscal policy next year as there is still a need for the world's second-biggest economy to realize stable growth, a former central banker was cited as saying in state-owned media on Sunday. The comment comes as the economy struggles for momentum after being hobbled by lengthy pandemic-busting measures, while market watchers fear severe debt woe among major property developers could spill over to other sectors. [Read More.](#)

Exclusive: Beijing Bourse Tells 'Major Shareholders' to Refrain from Selling, Sources say : The Beijing Stock Exchange has de facto implemented a new policy that prevents major shareholders of companies listed on the bourse from selling stock, worried that such sales could douse a long-desired rally, three people familiar with the matter said on Monday. The bourse said in a statement to Reuters on Tuesday that talk of such a policy was "not factual", and there was "no

change to the spirit of relevant published guidelines". [Read More.](#)

China Secretly Transforms Huawei into Most Powerful Chip War Weapon: Less than five years after US sanctions nearly crippled Huawei Technologies Co., the Chinese giant is now Beijing's most important weapon in a battle over semiconductors that's poised to shape the world economy for decades to come. Huawei's role in China's chip industry goes far beyond what's been previously reported. As well as being the most important customer for chip producers and the country's leading chip designer, Huawei is increasingly lending engineering expertise and financial support to smaller companies in strategic areas of the chip supply chain. It often does this without disclosing its involvement — which would trigger US restrictions. [Read More.](#)

China's Nio Teams Up with Geely on Auto Battery Swapping: Chinese automakers Nio (9866.HK) and Zhejiang Geely Holding Group said on Wednesday they had signed a strategic partnership agreement on battery swapping that would see them work together on standards, technology and model development. The deal makes Geely (GEELY.UL), whose brands range from Volvo to Zeekr, the second automaker to sign a battery swapping partnership with Chinese electric vehicle maker Nio. [Read More.](#)

China's PDD Beats Estimates as Online Discounter Temu Booms: Temu parent PDD Holdings (PDD.O) beat third-quarter revenue forecasts on Tuesday as heavy discounting boosted sales across its e-commerce platforms in China and overseas, sending its U.S.-listed shares almost 14% higher in premarket trading. PDD, home to Chinese online discount retailer Pinduoduo as well as cross-border platform Temu, has received a big boost from the growing popularity of its international e-commerce arm, which is known for selling \$4 earphones and \$15 hoodies. [Read More.](#)

China to Lead Global Renewable Growth with Record Installations- Woodmac: China is leading the global renewables market and is on track to reach a record-breaking 230 gigawatts (GW) of wind and solar installations this year, consultancy Wood Mackenzie said on Tuesday. China's estimated installation is more than double the number of U.S. and Europe installations combined, Woodmac said in a report. China's wind and solar project investment is expected to reach \$140 billion for 2023, the report added. [Read More.](#)

U.S., China to Work Together at COP28 Summit, Kerry says: The United States will work with China to make the United Nations climate negotiations that begin in the United Arab Emirates this week a success, Washington's climate envoy said on Wednesday. Cooperation between the U.S. and China, the world's two biggest emitters of greenhouse gases, is seen as crucial to securing consensus at the Nov. 30 - Dec. 12 summit, known as COP28. "We have decided to actually work together to get a successful COP, to get a successful global stocktake," Kerry said of his meeting with his Chinese counterpart this month. [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: China contributes over 30% to world economic growth in 2013-2021; <http://english.scio.gov.cn>; Sep. 19th, 2022

³ Source: 500 Years of GDP: A Tale of Two Countries; <https://www.newgeography.com>; Sep. 21st, 2015

⁴ Source: Jim Rogers makes a great point here. China is the only country which has been great 3 or 4 times. Rome was great once. Britain was great once. China has always been resilient. China has been around for over 5000 years. 3000 years with CONTINUOUS recorded history; <https://twitter.com>; May. 12th, 2023

⁵ Source: Harper. (2017). Fate of Rome

⁶ Source: Karpat, K.H. (1985). Ottoman population, 1830-1914: demographic and social characteristics.

⁷ Source: Angus Maddison. (2001). The World Economy--A Millennial Perspective

⁸ Source: Source: Richards, John F. (2003). The Unending Frontier: An Environmental History of the Early

Important Disclosures

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