

# 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](mailto:chinateam@morgancreekcip.com).

Best Regards,

Handwritten signature of Mark W. Yusko in black ink.

Mark W. Yusko  
CEO & CIO

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

This is the final instalment of a series of newsletters on China's homogeneity.

The term "civilizational state" was coined to distinguish China's unique socio-political character from other modern nation states. The strong ties among its people have always worked as a force to reunify the country time after time, dynasty after dynasty. The first newsletter in this series discussed China's homogeneity being a key reason behind its social and economic resilience through the ages. The second newsletter delved into possible reasons why China is so uniquely united and why India, despite being as large and as ancient (if not even more so) a civilization, is not as homogeneous.

In this newsletter, we will discuss some of the implications of China's homogeneity on its foreign policy and why we believe its re-emergence as a major power can occur in relative peace. In other words, we think that China's leadership is sincere when it states its intention for China to "rise peacefully".

We base this belief on history. The various Han empires have always been inward-looking and never really inclined to proactively incorporate different ethnicities of people and/or foreign territories under their direct control. In fact, it was only during periods of foreign rule (under the Mongols and Manchus) that China experienced its greatest expansion in territories. It is also a fact that China has already risen to become the second largest economy in the world. Its rise has (so far)

not been accompanied directly by any wars, which is already quite remarkable in and of itself.

### *Historical ethnic Han Chinese reticence in territorial expansions*

We believe China's insistence on maintaining cultural homogeneity has explained its relative disinterest in territorial expansions, compared to its more adventurous Western peers. In fact, it was typically during periods of foreign rule by non-Han people that China's boundaries experienced its greatest expansions. Of the 12 major Chinese dynasties, the two largest by a wide margin were the two led by foreign, non-ethnic Han conquerors:

The Qing dynasty (led by Manchus) reached its zenith at 14.7 million square km in 1790 <sup>2</sup> and is the fourth largest empire in world history in terms of land mass. This is 1.7x the size of the Ming dynasty – the largest ethnic Han Chinese empire. The Qing dynasty was responsible for folding Mongolia and Xinjiang into the mainland.

The Yuan dynasty (led by Mongols) reached its peak at 11.0 million square km in 1310. The Yuan emperors added Tibet and reconquered portions of Korea into the Chinese empire. They also initiated, unsuccessfully incursions into Japan.

The Ming dynasty (led by ethnic Han Chinese) boasted the largest fleet the world had ever known in the 1400s, almost a century before Vasco da Gama and Christopher Columbus began their voyages.



Figure 1: Model of Ming Treasure Ship and Columbus' Santa Maria

The fleet was led by Admiral Zheng He, who some believe might have been the first to circumnavigate the globe.<sup>3</sup> Regardless of the truth of those claims, it is indisputable that Chinese naval capabilities far outstripped that of any other civilizations at the time. Zheng He, sailing with up to 30,000 men in 300 ships (some estimated to be longer than a soccer field)<sup>4</sup> could have taken the opportunity to expand China's territories via conquest or colonization – but that did not happen on any of his seven voyages.

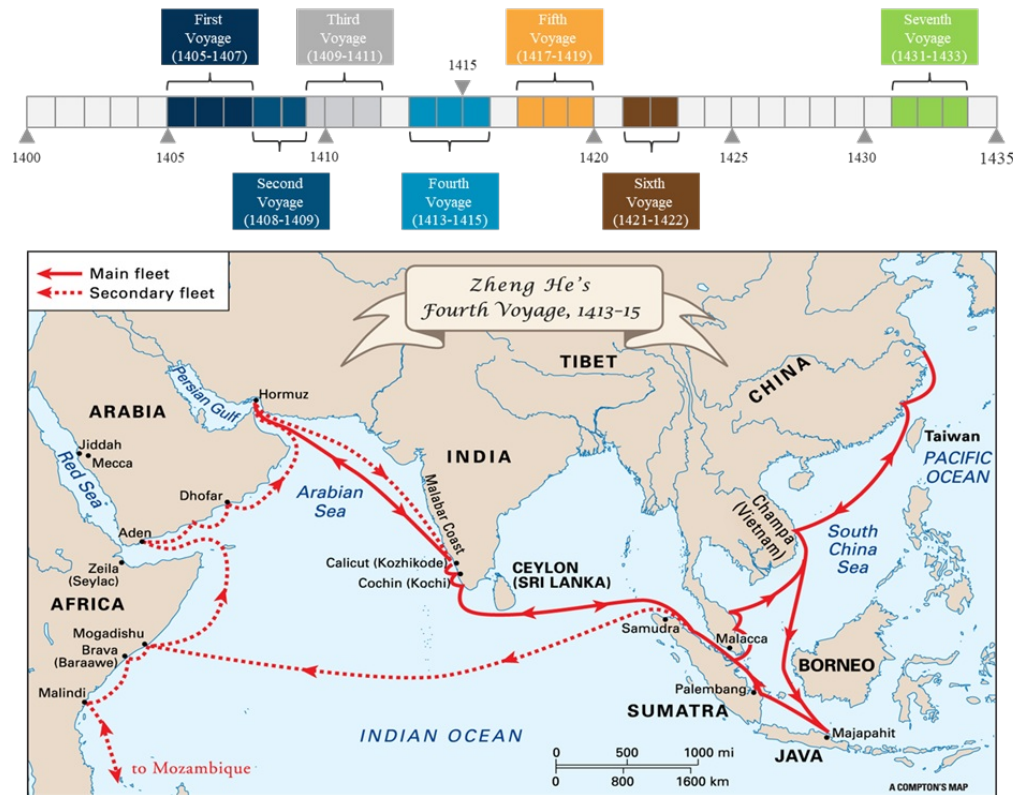


Figure 2: Voyages of Admiral Zheng He

Successive European voyages, even with their smaller initial scale, proved much more involved and lucrative. For example, Cortes sailed for the coast of the Yucatan from Cuba with 508 soldiers in 11 ships<sup>5</sup>, beginning his “exploration” of Mexico which would end in the demise of the ruling Aztecs and the rise of “New Spain.”

### *China's “peaceful rise”*

The rise of most other empires in history has been accompanied by external wars, as the conquering nation looks to build its heft by incorporating foreign peoples and territories under its control. China's scale has, for the most part throughout its history, been built from within. The period following a dynasty's collapse has featured bloodshed, but in the form of civil wars in an effort to once again reunify China.

Many foreign observers, drawing on the often-violent rise of prior empires, express concern about China's expansionist ambitions and are sceptical of Chinese officials who insist that they are planning on a “peaceful rise.”

































	Period		Ruling Power	Rising Power		Result
1	First half of 16 <sup>th</sup> century		France	Hapsburgs		War
2	16 <sup>th</sup> - 17 <sup>th</sup> centuries		Hapsburgs	Ottoman Empire		War
3	17 <sup>th</sup> century		Hapsburgs	Sweden		War
4	17 <sup>th</sup> century		Dutch Republic	England		War
5	Late 17 <sup>th</sup> – early 18 <sup>th</sup> centuries		France	Great Britain		War
6	Late 18 <sup>th</sup> – early 19 <sup>th</sup> centuries		United Kingdom	France		War
7	Mid – 19 <sup>th</sup> century		United Kingdom, France	Russia		War
8	19 <sup>th</sup> century		France	Germany		War
9	Late 19 <sup>th</sup> – early 20 <sup>th</sup> centuries		Russia, China	Japan		War
10	Early 20 <sup>th</sup> century		United Kingdom	United States		No war
11	Early 20 <sup>th</sup> century		Russia, U.K., France	Germany		War
12	Mid – 20 <sup>th</sup> century		Soviet Union, U.K., France	Germany		War
13	Mid – 20 <sup>th</sup> century		United States	Japan		War
14	1970s – 1980s		Soviet Union	Japan		No war
15	1940s – 1980s		United States	Soviet Union		No war
16	1990s - present		United Kingdom, France	Germany		No war

Figure 3: The rise of new economic powers typically is accompanied by wars

The chart above, from Graham Allison's book *Destined for War* illustrates some of this history, although it only focuses on instances of war between emerging powers and established incumbents. Unfortunately, history has repeatedly shown that the course of the *rise* of the emerging power itself is also accompanied by aggression. For example, Japan's ascent in World War II came on the back of wars with China, Korea, Russia and Southeast Asian states before it was reined in by the United States. Even the Soviet Union, which never directly confronted the United States during the Cold War, was engaged in a series of proxy wars in Korea, Vietnam and other regions before it imploded.

In contrast, China's rise has already happened – it is today the second largest (or largest if one considers purchasing power parity) economy in the world. The scale and pace of its rise has been bigger and faster than any empire that has come before it, and this has all happened over a period of relative regional peace.

Why is this so? We postulate that:

Many empires begin with the intention to exploit foreign resources to improve the livelihood of their elites and domestic population. But China for the most part already has the natural and human resources. It controls the third largest land mass in the world after Russia and Canada<sup>6</sup> and has the second largest population in the world after India. China has always been self-sufficient for most of its history, and as such its preoccupation is determining how to organize itself to optimize the utilization of its endowments as opposed to looking abroad and forcefully acquiring foreign resources. Having witnessed the rise and fall of many empires, including its meticulous documentation of its own various dynasties<sup>7</sup>, we believe that China knows too well the ultimate cost that comes in adopting the latter unsustainable approach.

China's homogeneity has endured for millennia only through deliberate design – maintaining it is impossible with an expansionist policy. While the Chinese are welcoming and friendly to foreigners, it is very difficult to *become* Chinese. There are practical considerations to this:

Mandarin for instance is among the most difficult languages in the world to learn.<sup>8</sup> But even were one to master the language, integrate into the culture, and attempt to naturalize as a citizen, it is extremely difficult to become a citizen. China's permanent residency rules are among the toughest in the world, with only 20,000 foreigners granted a residency card since 2004.<sup>9</sup> In comparison, the



US issued 1.1 million green cards in 2018 alone.<sup>10</sup> Given its aging demographic, Chinese authorities have proposed to relax regulations to increase immigration, however this proposal has garnered a very strong backlash.<sup>11</sup> The difficulty in identifying with ethnic identity - primarily reflected in the complexity of language, and the ongoing difficulty of obtaining citizenship at the national level, makes China's rise a peaceful process.

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

## ***CHINA NEWS SPOTLIGHT***

**China Reports Fastest Industrial Expansion in Nearly 2 Years; Retail Sales Growth Misses Estimates:** China reported Friday its industrial output expanded at the fastest pace since February 2022 in November, though retail sales growth missed expectations, pointing to a patchy recovery in the world's second-largest economy. Economists are approaching the China data with some caution, given a low base effect. The country was in the final months of its stringent zero-Covid curbs in the last quarter of 2022, which had adversely impacted the economy. [Read More.](#)

**Chinese Tech Giant Alibaba Unveils New AI Video Tool:** Another day, another artificial intelligence model. Alibaba Cloud—subsidiary of Chinese conglomerate Alibaba Group and one of the world's largest cloud computing companies—has unveiled its I2VGen-XL AI tool. It's an advanced text-to-video system that's intended to compete against top-of-the-line models like the ones released by Pika Labs or Stability AI. [Read More.](#)

**Nio Finishes 150-kWh Battery Range Challenge with 1,044 km:** At 1,044 kilometers, this is the driving range that Nio's (NYSE: NIO) 150-kWh semi-solid battery pack has achieved on a single charge as seen in a real-life test and is the longest range of any mass-produced electric vehicle (EV) to date. "The 150-kWh battery range challenge is complete with a final score of 1,044 kilometers!" William Li, Nio's founder, chairman and CEO, announced on the night of December 17. Li set off from a battery swap station in Shanghai at 6:32 am yesterday and drove the ET7 sedan with the 150-kWh battery pack to a highway service area in Xiamen, Fujian province at 8:33 pm after 14 hours and 1 minute. [Read More.](#)

**Exclusive: Chinese Firms Look to Malaysia for Assembly of High-end Chips, Sources Say:** A growing number of Chinese semiconductor design companies are tapping Malaysian firms to assemble a portion of their high-end chips, keen to hedge risks in case the U.S. expands sanctions on China's chip industry, sources said. The companies are asking Malaysian chip packaging firms to assemble a type of chip known as graphics processing units (GPUs), according to three people with knowledge of the discussions. [Read More.](#)

**Face it, China's Clean Energy Firms are Key to Cop28 Climate Goals:** This year's Cop28 UN climate summit in Dubai came right after the International Supply Chain Expo in Beijing, held to strengthen and showcase China's unbeatable manufacturing and logistics capabilities. Having attended both events, I see China's connecting role as more important than ever. Though the supply chain expo was largely hosted to bolster the Chinese economy, it also shows China's underappreciated role in addressing climate change. The good news out of Cop28 is a historic agreement to transition away from fossil fuels. This calls for the world to cut greenhouse gas emissions by 43 per cent by 2030 and by 60 per cent by 2035, relative to 2019 levels. [Read More.](#)

**Chinese Firm Wins Brazil Power Line Tender to Boost Green Energy:** China's State Grid emerged as the big winner in Brazil's largest-ever electricity transmission line auction on Friday, snapping up the largest batch of projects up for grabs. State Grid (STGRD.UL) won a bid to build and operate 1,500 kilometers of lines, followed by a consortium led by Alupar (ALUP11.SA) to

build 1,100 km of power lines. The auction is the second of a series of tenders planned by the government of President Luiz Inacio Lula da Silva to increase the electricity transmitted from renewable sources generated in the northeast of the country to demand from southern sources. [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.

<sup>2</sup> Source: List of largest empires; <https://en.wikipedia.org>

<sup>3</sup> Source: Chinese admiral mapped world in 1418; <https://www.irishtimes.com>; Jan. 16th, 2006

<sup>4</sup> Source: The legendary Chinese seafarer the West overlooks; <https://www.pbs.org>; Aug. 14th, 2021

<sup>5</sup> Source: Hernán Cortés; <https://www.britannica.com>; Nov. 19th, 2023

<sup>6</sup> Source: Albeit China’s arable land is shrinking rapidly due to urbanization and industrialization.

<sup>7</sup> Source: China’s “Twenty Four Histories” covers different time periods through the Ming dynasty and consists of 40 million words over 3,200 volumes. The history of the Qing dynasty is still being written.

<sup>8</sup> Source: What is the hardest language to learn? It’s one of the most spoken languages in the world; <https://www.usatoday.com>; Oct. 25th, 2022

<sup>9</sup> Source: Center for China and Globalization

<sup>10</sup> Source: Department of Homeland Security

<sup>11</sup> Source: Backlash in China overdraft rule on permanent residency for foreigners; <https://www.scmp.com>; Mar. 5th, 2020

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### **Important Disclosures**

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