

MORGAN CREEK

CAPITAL MANAGEMENT

ALTERNATIVE THINKING ABOUT INVESTMENTS

New Asia Perspectives



Welcome to Morgan Creek's *New Asia Perspectives*, an open forum where we share our proprietary research together with curated articles of interest. We seek to offer a variant interpretation of important political and economic events through an Asian lens by leveraging our team's "on the ground" insights and decades-long experience in covering the region. We disseminate our research through newsletters, webinars and periodic whitepapers. Feel free to forward our research to colleagues you think might be interested and please share any interesting research you come across as well. To offer comments, share research, or learn more about our team and investment offerings, please email chinateam@morgancreekc.com.

Best Regards,

A handwritten signature in black ink that reads "Mark W. Yusko". The signature is written in a cursive, slightly slanted style.

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

This is our third newsletter discussing the South China Sea tensions and conflicts from a local perspective. In the prior two newsletters, we outlined reasons why the region is so highly contested and why China is vociferous over its claim. We also discussed why the West might be misled in its assessment of China's objectives in the region. In this newsletter, we describe why we believe China's inclination is to find a peaceful, win-win solution for claimants.

In the early 1400s, Admiral Zheng He led the largest fleet the world had ever known on seven voyages of exploration: the first voyage comprised of almost 300 ships carrying 28,000 armed troops, including horses and grain. Zheng He's flagship boat measured about 400 feet long. Almost a century later, Christopher Columbus set sail with 3 ships carrying 90 men²; his largest boat, the Santa Maria, measured just 85 feet.

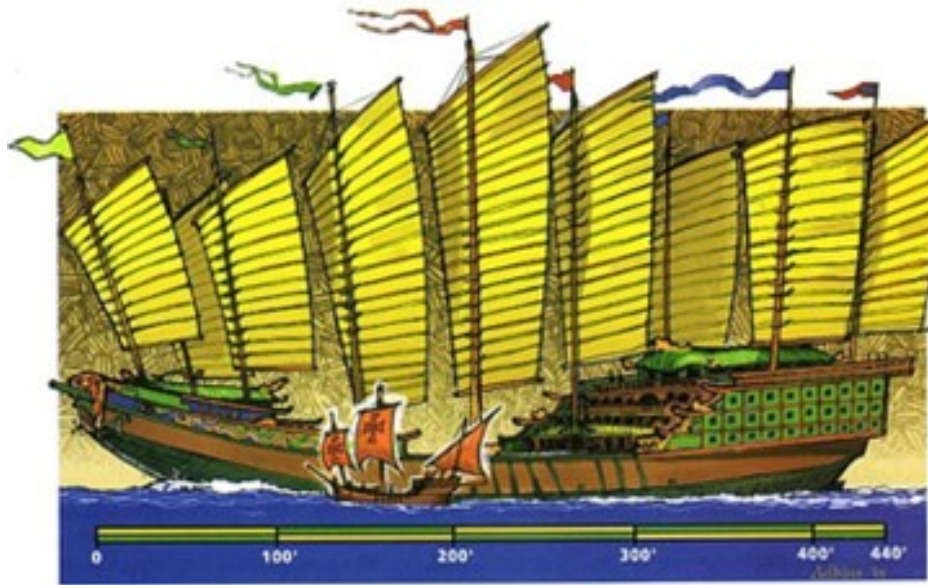


Figure 1: A comparison of Admiral Zheng He's flagship (Baochuan) with Christopher Columbus' Santa Maria³

Yet their fortunes (and legacy) would diverge with their nation's differing mindsets and objectives. Columbus' journey to the Americas was underwritten by Spanish monarchs motivated by New World riches. Columbus delivered by paving the way for European countries to later dominate and colonize the planet. He is today traditionally venerated by Western posterity as a hero.

On the other hand, Zheng He's voyages, while historically unmatched in scope (at least until the invasion fleets of World War I⁴) were designed to showcase China's power and wealth to tributary states. This awesome series of journeys placed a huge burden on the imperial treasury with no return on investment in terms of acquired gold or territory. With the passing of his patron Emperor Yongle, Zheng He's "wasteful" expeditions were cancelled. Furthermore, later officials attempted to erase Zheng He's legacy (his maritime logs were destroyed together with his ships) to prevent future generations from following in his "missteps".⁵ It was only much later that historians rediscovered his accomplishments. For a few decades in the fifteenth century, China was uncontested in the seas – it had the means (technology, capital, manpower) with which to dominate its neighbors and potentially alter events leading to the (yet to occur) humiliating Chinese Opium War, but somehow fell short in desire and/or motivation. This inaction would later cost China dearly in its interactions with the West.

This would be a recurring theme with the Han Chinese (94% of China's population), who would appear comparatively unambitious throughout history in this respect. Indeed, it was only during periods of non-Han Chinese rule (Yuan dynasty under the Mongols and Qing dynasty under the Manchus) that imperial China reached peak landmass.

Henry Kissinger in his book *On China* approached this topic by contrasting the strategies of Eastern and Western peoples by comparing the game of Wei Qi (Go) and Chess. An old saying captures the differences quite aptly: Chess is a battle, and Go is a war. In Chess, there is a clear objective and path to victory – to checkmate the King. In Go, the objective is to surround your opponent without getting surrounded; its finales are often nuanced, and victory oftentimes may not be immediately obvious.

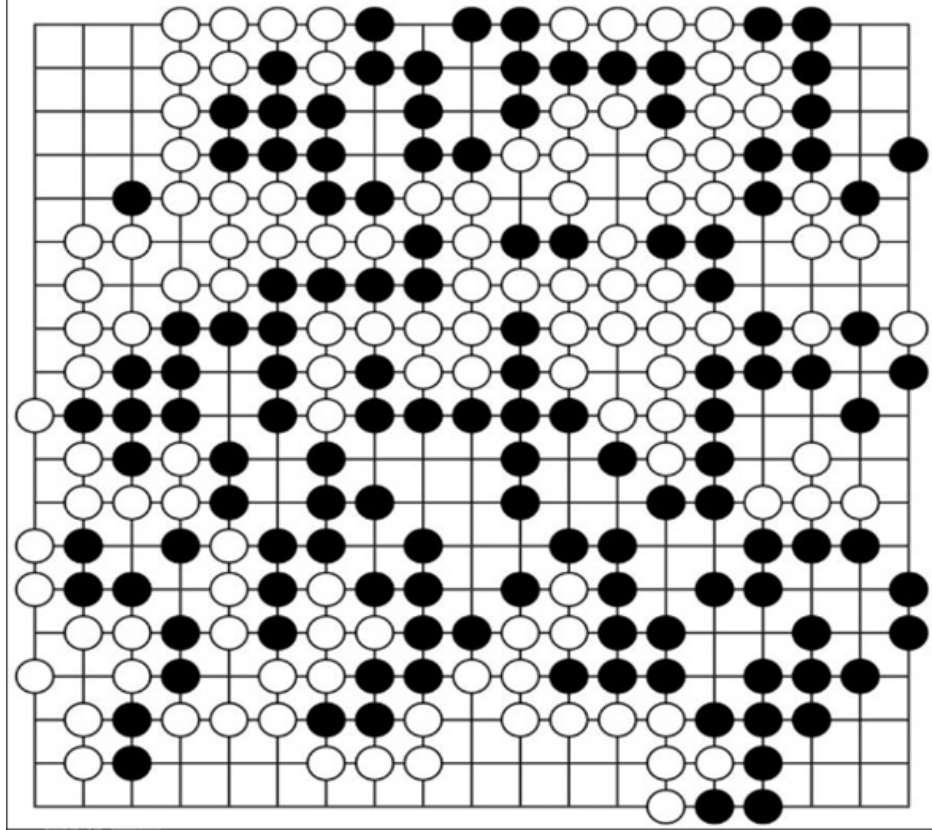


Figure 2: Go Board in Henry Kissinger's On China⁶

One can see examples of these different approaches in foreign policy. Consider the Western Middle East strategy. The West has decisively won every battle in which it engaged. Operation Desert Storm I & II deposed Saddam Hussein; Operation Neptune Spear killed Osama bin Laden; and Operation Kayla Mueller removed Abu Bakr al-Baghdadi (the then caliph of ISIS). Yet if looked at in its entirety – the destruction of each enemy “King” merely caused another to emerge, resulting in decades of costly, continuous conflict only ultimately concluding with the withdrawal of foreign troops.

These examples can be contrasted with the last two battles the Chinese waged with India (in 1962) and Vietnam (in 1979). In the former, China unilaterally declared a ceasefire and retreated from Indian territory after securing its claimed lands in the disputed Aksai Chin region with overwhelming force advantage (seven to one).⁷ In the case of the latter, China launched an offensive into Vietnam in response to Vietnam’s invasion and occupation of Cambodia. After pushing Vietnam 40km past its border and capturing a strategic northern Vietnamese city accessible by road and rail to its capital Hanoi, the Chinese considered their warning delivered and promptly withdrew their forces, once again unilaterally ending the war.

China’s historical bias towards peace and regional stability is rooted in its core philosophy, and this gives us optimism that a long-term solution can be found for the South China Sea.

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ASIA NEWS SPOTLIGHT

China is Trying to Connect Southeast Asia by High-speed Rail. Here’s how that’s going: Imagine jumping on a train in southwestern China, traveling some 2,000 miles and

arriving in Singapore – less than 30 hours later. That’s the scenario China is envisioning for Southeast Asia as part of its Belt and Road Initiative (BRI), a vast overseas infrastructure development program that launched more than a decade ago. In 2021, the semi-high-speed Laos-China Railway opened to passengers, connecting the southwestern Chinese commercial hub of Kunming to the Laotian capital of Vientiane – a roughly 10-hour journey spanning some 1,000 kilometers (621 miles) that officials claim has boosted numbers of overland Chinese travelers while greatly benefiting local vendors and businesses in the tiny land-locked country. [Read More.](#)

HSBC Launches \$1 Billion ASEAN Growth Fund to Empower Southeast Asian Startups: HSBC has unveiled plans to establish a \$1 billion ASEAN Growth Fund to provide lending to companies expanding through digital platforms across Southeast Asia. The bank’s recognition of Southeast Asia’s rapidly growing digital economy is forecasted to reach \$600 billion by the end of the decade, a leap from \$218 billion in value last year. This sizable fund targets a broad spectrum of entities, including new-economy businesses, established corporates, and non-bank financial institutions seeking to enhance their presence across multiple regional markets. [Read More.](#)

Autonomous Driving Software Maker Horizon Robotics Files for Hong Kong IPO: Chinese autonomous driving software maker Horizon Robotics has filed, opens new tab for a listing on the Hong Kong Stock Exchange without disclosing any details about share issuance and value of the offering, the exchange's website showed on Tuesday. [Read More.](#)

Chinese AI Companies a Perfect Match for Domestic Chipmakers: Some China observers contend that Washington’s export control strategies incentivise Chinese enterprises to bolster their self-reliance. Nvidia, a US chipmaker, has garnered attention for consistently introducing ‘China-specific’ redesigned chips, relieving Chinese chipmakers grappling with business constraints. Following the implementation of export control measures, Nvidia’s 2023 revenue and stock prices surged. During a visit to China in January 2024, Nvidia’s CEO Jensen Huang referred to 2023 as a ‘dream year’ for the company. Nvidia commands approximately 90 per cent of China’s chip market, particularly in artificial intelligence (AI) chips. [Read More.](#)

Cooperation Seen Key to Asia Energy Transition: Multi-dimensional and comprehensive cooperation in Asia, in terms of policies, industry regulations, technologies and market mechanisms, is vital to help advance the journey toward zero-carbon electricity, experts said as a new report on green transition was unveiled on March 26. The report, titled "Sustainable Development: Asia and the World Annual Report 2024 — Striding Towards Zero-Carbon Electricity Era and Bolstering Green Development in Asia", was released on the opening of day of the Boao Forum for Asia annual conference in Boao, China's Hainan province. [Read More.](#)

China Doubles Down on Green Tech, Energy Transition: Amid an onslaught of grim climate news, China’s recent decision to pursue a faster green transition is a rare bright spot. In early March, at the annual National People’s Congress, Premier Li Qiang announced that the country would accelerate investment in clean-energy projects. The plan is for a “new trio” of industries – solar panels, electric vehicles (EVs), and lithium batteries – to drive economic growth, replacing the “old trio” of clothing, furniture, and appliances. [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: Columbia sets sail; <https://education.nationalgeographic.org/>; Oct. 19, 2023

³ Source: Zheng He (1371-1435): Admiral of the Treasure Ships; <https://www.alrahalah.com/>; Sep. 15, 2010

⁴ Source: *When China Ruled the Seas: The Treasure Fleet of the Dragon Throne, 1405–1433*, Louise Levathes; Jan. 9, 1997

⁵ Source: Admiral Zheng He’s voyages to the “West Oceans”; <https://www.asianstudies.org/>; Dec. 13, 2004

⁶ Source: *On China*, Henry Kissinger; May 17, 2011

⁷ Source: How China defeated India in a terrifying 1962 war; <https://nationalinterest.org/>; Feb. 11, 2020

Important Disclosures

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