

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@morgancreekcip.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

Asia, unlike perhaps some of its developing nation peers in other regions of the world, has been an unequivocal beneficiary of Pax Americana. Uncontested US military presence in the region over the past eight decades has resulted in a long peace dividend, allowing Asian states to focus their efforts and resources on industrializing. This in turn underwrote the rise of the Asian "miracle" economies including Japan, South Korea, Taiwan and ultimately China. However, the rapid economic rise of Asia has brought potential challengers to the status quo as the balance of power of various countries evolve and frictions begin to emerge at the maritime crossroads of all these states: the South China Sea.

In the next series of newsletters, we will explore this topic from the local perspective and discuss why:

- The South China Sea is so contested and why China is vociferous over its claim.
- The West may be misled in China's intention over the region.
- We believe China's inclination is not to resort to force to dominate the region.
- Uncertainty over who the ultimate victor might be in the event of a physical conflict might allow the status quo to persist.

We will discuss the first bullet point in this newsletter.

Over the past two decades, the South China Sea has become one of the most highly contested regions in the world. This is in part due to economics. First, the South China Sea is one of the most important shipping passages in the world. In 2016, over \$3.37 trillion² of trade passed through its waters, or approximately one third of all maritime traffic in the world. Further, the major Asian industrial giants receive most of their energy inputs through these waters. According to Robert Kaplan's research in 2014, a majority of the energy supplies for South Korea and Japan and nearly 80% of China's crude oil imports passed through these waters.³ The area is estimated to have major oil and natural gas reserves.⁴ Therefore, we believe it is critical for each of the manufacturing powerhouses of Asia to ensure that this transportation channel (and potential source of energy) remains open to their influence.



Figure 1: Disputed Territorial Claims in the South China Sea⁵

In the case of China, however, there is a deeper motivation at work that has compelled it to venture out into the South China Sea and beyond: a trauma that has been etched into national memory. This is a period of its past which China recalls as its “century of humiliation”. For most of its recorded history, China had been (and viewed itself) as a continental power and envisioned external threats to its empire to arrive overland, mainly from the nomadic tribes to its north and west, where it focused all its attention and resources.

China partook in maritime exploration from 1405-1433 (under Admiral Zheng He), but this exploration barely registered as a blip when considered against its long history and was quickly abandoned after the patron emperor passed. For 1,800 of the last 2,000 years, this was the correct approach. For roughly half of China's recorded imperial history, it saw parts or all of China conquered by nomadic peoples from Inner Asia. These episodes were initially disruptive, but China quickly recovered. The country established a capable bureaucracy which administered the kingdom, and gradually all foreign invaders were assimilated and “Sinicized”. Chinese territorial integrity and culture remained for the most part intact, and the country continued its progress under a new regime.

However, beginning in the sixteenth century, the nature of the adversary changed. For the

first time, their attackers arrived on gunships off the coasts of China. Unlike prior invaders, they were uninterested in the burdens of ruling the country; instead, they sought to engage purely in profit and propagate their own beliefs, often by the sword. By the nineteenth century, the terms of trade with these foreigners began to deteriorate as the Qing dynasty grew weaker, eventually devolving into exchanging drugs (opium) for tea. Resistance (real or imagined) resulted in more territorial confiscations. Over time, China lost much of its land via salami slicing – the southern tributaries of Nepal and Burma to Britain; Indochina to France; Taiwan and the tributaries of Korea to Japan; and Mongolia to Russia.



Figure 2: One of a series of French postcards caricaturing the carving up on China by Western imperial powers⁶

There was a real internal anxiety that, as a Yale historian put it, China would “cease to exist as a nation, and that the four thousand years of its recorded history would come to a jolting end”.⁷ Having survived that harrowing episode, China learned the importance of guarding its maritime channels to protect its vulnerable coastal flanks and control its destiny.

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ASIA NEWS SPOTLIGHT

Thailand, Laos Try to ‘Make Junta Presentable’ Amid ASEAN Myanmar Inertia: Thailand’s controversial humanitarian initiative with crisis-torn Myanmar is facing growing criticism even after its fellow members of the Association of Southeast Asian Nations (ASEAN) appeared to collectively endorse the scheme. The ASEAN Foreign Ministers’ Retreat wrapped up recently in Luang Prabang, the old capital of landlocked Laos, with an emphasis on the stalled five-point consensus agreed between the bloc and the Myanmar military shortly after it seized power in a 2021 coup. [Read More.](#)

Asia FX Edges Lower, Dollar Steady Before PPI, Retail Sales Data: Most Asian currencies retreated on Thursday, while the dollar steadied from recent gains as markets sought more cues on U.S. interest rates from producer inflation and retail sales data due later in the day. Regional currencies were still reeling from a stronger-than-expected U.S. consumer price index print earlier this week, which ramped up bets that the Federal Reserve will take its time in reducing interest rates. [Read More.](#)

Asia's Tech Industry is Recovering on Chip Boom Amid Global Economic Uncertainty, JPMorgan Says: Asia-Pacific’s tech sector has been growing on the back of the

semiconductor boom even as other industries struggle amid global macro uncertainty, according to investment bank JPMorgan. “Tech has been recovering, that’s why Asia has done reasonably well in the second half of last year. China industry benefited, North Asia obviously benefited more from it,” Bruce Kasman, chief economist at JPMorgan said in a media briefing on Tuesday. [Read More.](#)

Asia Green Tech Summit: Sustainability Stuck on Funding?: A major event in the Asian sustainability ecosystem, the Asia Green Tech Summit resonated with the urgent imperative to accelerate the region's transition towards a low-carbon future. The summit convened investors and green technology stakeholders to deliberate strategies for integrating green mobility into public transit systems and addressing funding challenges hindering the widespread adoption of renewable energy solutions. [Read More.](#)

China's Xiaomi to Start First EV Deliveries this Month: Xiaomi (1810.HK), opens new tab will this month start deliveries of its first electric vehicle (EV) in China, it said on Tuesday, venturing into the world's largest auto market at a time of aggressive price competition. The smartphone maker, China's fifth-largest, said in a Weibo post that 59 of its stores in 29 cities nationwide will take orders for its new Speed Ultra 7 (SU7) sedan. A launch event is scheduled for March 28, when the new EV's sticker tag is expected to be made public. [Read More.](#)

China Goes Big on Laos Power Projects, Boosting Southeast Asian Sway: Chinese state-owned companies are stepping up power infrastructure investment in Laos, including hydroelectric power plants and transmission, expanding their footprint in a country that aims to become the "battery of Southeast Asia." The Nam Ou hydroelectric plant, one of the largest power generation facilities in the country's north by capacity, is a roughly two-hour drive from Luang Prabang along mountain roads. [Read More.](#)

Asia Pacific Could Become a Global Leader in the Energy Transition: Home to half of the world’s population and contributing a third to the global GDP, the Asia Pacific region is expected to maintain a 50% share of global primary energy demand and a 60% share of global carbon emissions until 2050. This trend is unlikely to change without strong policy action and investment. However, the region still has the potential to turn these challenges into opportunities and become a global leader in the energy transition, according to ‘Wood Mackenzie’s Asia Pacific Energy Transition Outlook (ETO)’ report. [Read More.](#)

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: How much trade transits the South China Sea?; <https://chinapower.csis.org/>; 2016

³ Source: *Asia’s Cauldron: The South China Sea and the end of a stable pacific*, Robert D. Kaplan; Mar. 25, 2014

⁴ Source: The South China Sea is rich in oil and gas resources and will become a new economic growth pole; <https://www.cgs.gov.cn/>; Jul. 10, 2012

⁵ Source: Is joint exploration the answer to the South China Sea dispute?; <https://theaseanpost.com/>; Mar. 25, 2018

⁶ Source: The Boxer Uprising-I; <https://visualizingcultures.mit.edu/>; Feb. 19, 2020

⁷ Source: *The Search For Modern China*, Jonathan D. Spence; Dec. 1999

Important Disclosures

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