stars insights: 8 May 2018

"The key to China is the Chinese leadership – it thinks in decades, not in terms of election cycles"

*Exclusive stars interview with **Charles Liu, Founder & Venture Partner, Hao Capital, Beijing**, conducted by **Helge Wolff, MBA student, Fudan University, Shanghai***

Helge Wolff: Mr. Liu, you have a remarkable record of accomplishment in the financial services industry and you have been working with very large players in the industry over the past decades. What did you see on the horizon that motivated you to found your own fund in the early 2000s?

Charles Liu: I founded my first fund in 2003 and at that time, the Chinese economy grew at more than 10% per year. Back then, anything you threw on the ground would grow. I just saw a lot of growth opportunities in China and besides, the global economy was doing very well. In 2007/08 I founded my second fund and, supported by an RMB appreciation on the dollar, profits could be made without major effort. The investments were very diverse, including for example software for banks, post machines, or cashmere manufacturing. I tried many things until the year 2012, when I handed over the management and started doing my own investments.

All your portfolio companies are of Chinese origin and are located in China.

Yes, there is a good reason for this: in 2007 my friends at Goldman Sachs suggested that I set up an Asia fund instead of a China fund. I went on to do my research in other Asian countries and I looked around in India, Malaysia, and Indonesia for example. But you find different mentalities in these countries and you need different teams to deal with them. It would have been a completely different set-up and China was growing and had much potential itself.

What else is particularly remarkable about the Chinese private equity market?

One other reason why, in 2012, I decided not to run the fund anymore: according to unofficial numbers there were close to 10'000 funds operating in China at that time and the investment environment became very competitive. Everybody could have access to money and you didn't get the best deal anymore.

Since you established your first fund 15 years ago, what have been the most relevant changes in China's economy that affect investors and private equity firms like yours?

The key to China is the Chinese leadership – it thinks in decades, not in terms of election cycles. When you think in decades you can make long-term decisions that actually have an impact. One must consider how the economy is being restructured, and it has been restructured very quickly. In earlier days it was cheap manufacturing and production for the rest of world. Then the domestic market became relevant and yet again, the set-up was very different. In China, opportunities have been arising in many different sectors, resulting in various types of business models. These changes take place extremely quickly and in my opinion this is what investors from mature economies cannot really handle.

If we were to have this talk again in 2030: how do you think your answer to this exact same question might have changed?

If I were to run a private equity fund today, I would look at a couple of things. Firstly, I would focus on manufacturing upgrading: robotics, artificial intelligence, and other upgrades for production efficiency and enhancement. Secondly, and this is my favorite subject, environmental protection will be a key industry in future. China has a lot to do and a long way to go in this area and the government is highly aware of this. Over the last 10 years, tens of billions of dollars have been poured into technologies in the environmental protection and renewable energy industries. More electric vehicles were sold in China last year than in the rest of the world combined. Also, 99% of the world's stock of electric buses is in China. The country will be the launching pad for many innovations in the environmental sector.

Here in Chengdu the government is trying to establish cluster regions around trending industries such as Big Data, AI, and Biotech. What are your thoughts on this planned approach to fostering innovation?

I think the following is happening: governments are setting up these parks to create attractive policies in order to attract companies from these industries and in turn to improve their GDP growth. Local governments are doing this all over China, not just here in Chengdu. However, these areas, including Chengdu, will not be able to compete against cities like Shenzhen for example. Shenzhen has huge vitality in terms of technology development and it also has the respective value and supply chains to support these developments. It is an exceptional project and there are no comparable, successful projects elsewhere in China yet.

Which role can investors and private equity companies play in these developments, and how can they benefit?

By investing into the environmental sector, I am benefiting from those governmental activities. As this whole sector is now a focus of the central government, additional regulation is punishing such companies that do not adhere to environmental standards. This in turn benefits my investments: companies that are trying to do things right and run operations environmentally friendly or produce environment-related products or services. The government is planning to facilitate 80 billion dollars in green financing this year to support environmental projects, thereby creating demand for such products and services. This is a good thing, from any perspective.