

Goldman Sachs Talks

Primavera Capital's Fred Hu on China's economic trajectory

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Fred Hu: Renewable energy, solar, wind, and EV and battery. China has established itself as the, I would argue at this point, undisputed global leader.

Kevin Sneader: Well, hello everyone, and welcome to another session of Goldman Sachs Talks. And I am truly delighted to welcome to Goldman Sachs Talks Fred Hu, founder, chairman, and CEO of Primavera Capital Group. Now, Fred is a very important person here in Hong Kong and far beyond, and I'll explain why in a moment. But he is the founder of Primavera. He has led investment transactions including Alibaba Group, Ant Group, Yum China, ByteDance, and many others. That's not a bad list.

Prior to founding Primavera, of course, Fred was a colleague of ours. In fact, some of us were just reminiscing about when we first met you. You were a partner and chairman of Greater China Goldman Sachs and a member of the Goldman Sachs partnership committee. You've also

served as an economist at the International Monetary Fund and on the Hong Kong government's Strategic Development Committee and the advisory committee for the Hong Kong Securities and Futures Commission. That's not enough.

He's now executive chairman of Yum China Holdings, Inc., and also serves on the boards of ICBC and UBS Group. And amongst other roles, Fred is a member of the global board of directors of The Nature Conservancy. In short, it would be much easier to list the things that Fred does not do than all the things that he does do. But here we are.

We are recording this after, in many ways, what's been a historic run in the Chinese equity markets. And it began almost a week ago when we saw the joint statement by the CSRC, the PBOC, and the NFRA. That was followed by the politburo meeting, followed by the state council, and I think today we've seen a continuous run with the Hang Seng up another 6% over the course of the last trading period. What's going on? What's your take on what's happening?

Fred Hu: Yeah, first of all, Kevin, thank you for having me. You know, for me, it's a homecoming, right? To come

back to my old firm. So I'm just delighted to see many familiar faces, friends, colleagues in this room.

In terms of what's happening, I think it's been an exciting, uplifting week or so. And I hope this will continue for many weeks, many months to come.

You know, for about a 2-, 3-year period, there was a lot of doom and gloom for the Chinese economy. And so investors have been looking for what the Chinese leadership regulators might do to revive market confidence, to really ensure the economy will be sufficient in its recovery. But for whatever reason, it's been a long wait, and, you know, where we feel confidence-boosting measures been announced, action been taken. And meanwhile, the economy seemed to face more and more headwinds.

So all this seemed to have a dramatic change about a week ago. You know, as you noted, Kevin, you know, policy authorities announced that, you know, some meaningful policies, obviously long overdue policy measures. And that has, you know, clearly, you know, had, you know, meaningful impact on market psychology, right? And

that's what the investors have been waiting for. So, you know, Asia market, you know, here, Hong Kong market, and even ADR in New York, all responded very positively.

You know, I think the truth is it's not like, you know, investors are really completely giving up, you know, China. People have just been patiently waiting for -- they needed the catalyst, number one.

Number two, it's also the underlying belief, despite all the short-term uncertainty, difficulties, challenges, in fact, the economic problems facing China are all fixable. And China still has many tools in its policy toolbox and still has vast resources at its disposal to hold whatever deflationary momentum, you know, weak consumer sentiments, and, you know, investor confidence as long as the country's leadership refocused its attention and energy and time on the economy. And they really prioritize economic development on the national policy agenda.

So if China does that, I do think, you know, confidence will be sustained and hopefully this is the beginning of I would even -- not call bull market, although sometimes it feels like that way. But it's really normalization because China

has been -- China-Hong Kong has been so depressed for so long, so we have some catch-up to do. And if the economic fundamentals, the policy fundamentals are supportive, I do feel like this is the beginning of, you know, a better market environment ahead.

Kevin Sneader: Well, let's pick up on this topic of fundamentals because it's one thing to have an equity market rally, it's another thing to fix an economy. What are you looking to see happen now when it comes to the fundamentals of the Chinese economy? What do you think the course of action should be from policymakers?

Fred Hu: Yeah. So we have seen the initial batch of mostly monetary and, you know, financial type of policy measures. Next, I expect the government will unleash fiscal stimulus, okay? So right now it's notable for its absence. And actually among the larger economies since the pandemic -- you know, US, EU, Japan, right? -- all used a lot of fiscal stimulus. China actually, by contrast, was very, very stingy, almost nothing to speak of. So it's high time, you know, for the government to also step up fiscal stimulus program. Sort of calibrated, you know, targeted towards household security, not so much more

fixed asset investment, more capacity building, which China does not need.

But I would say on top of that, you know, the conventional monetary and the fiscal policy stimulus, China has even more important stimulus, which was really just structural. You know, does not cost the government a penny. It just really do the best possible job to reassure private sector. Reassure consumers. Reassure domestic and international investors about the long-term direction which China -- okay, are we still committed to a free-market economy, right? Are we still committed to the peaceful rise, you know, for China to reclaim its rightful place in the world, peacefully, despite all the despite all the odds against that

I think, you know, if China leaders do a better job reassuring domestic public mostly but also international investors on those two, you know, I think, you know, China will restore its luster as being, you know, the most dynamic major economy in terms of growth opportunities, but also in terms of investment opportunities for financial and other long-term investors.

Kevin Sneader: Well, let's turn to that. And one of the

points you just made was sort of in the confidence in the private sector in particular. If I can extend that to domestic entrepreneurs, the entrepreneurship, the innovation, what are you seeing on the ground? You spend plenty of time in China. You meet with and you talk to a lot of the entrepreneurs. How do you feel about the state of innovation in China?

Fred Hu: So since the reopening of China from Zero Covid, we have seen an increase and a steady improvement of business confidence and, you know, entrepreneurial confidence. But it's also plenty clear to me when I talk to many of my partners, friends, you know, in the entrepreneur community that the people still take a very cautious "wait and see" attitude because there's still lack of clarity, right? In terms of fundamental direction on the minds of the top leadership whether private sector, you know, is genuinely impressed as the essential and the, you know, perhaps most important player of China's economy. So, yes, there's been improvement, but that's not enough. We need to see more. Not just rhetoric, right? But also actions.

So if the animal spirits in China are revived, then I think I

would be very, very bullish on the medium-, long-term outlook.

Kevin Sneader: One of the areas which of course we talk about a lot globally is AI. And if we turn to, therefore, where those animal spirits could be deployed, how do you feel China's situated in this development, almost the race for AI and the extent to which China is well placed or otherwise? What are you seeing and hearing in the AI space?

Fred Hu: Yeah. Prior to, like, the end of 2020, I would argue US and China were nearly neck to neck in AI. Notably, in hot fields back then such as computer vision, you know, like, facial recognition, pattern recognition, you know, autonomous driving, right? And NLP, natural language processing, which is the focus of today's gen AI.

Actually in those hot areas, I think China, US were pretty much, you know, equal. But as I noted, right? There was a very harsh crackdown on the tech sector. You know, it was really just self-inflicted harm to China's innovation and to AI in particular. So with the investor confidence, you know, being decimated, animal spirits, you know,

depressed, and dramatic slowdown in AI investments and progress.

So by November 30th, 2022, when OpenAI released this ChatGPT, that sent shockwaves to the Chinese tech community. You know, those few days were frenetic, I got a lot of calls, messages with many of the tech founders and leaders in China. So it was a tense realization China was left behind, you know, in gen AI.

Where, you know, their larger non-language model, you know, to, you know, kind of demonstrate the emergent but potentially very powerful capabilities whether it's text generation, audio generation, you know, reasoning, right? With a very broad range of applications, you know, industries like education, finance, and, you know, manufacturing and so forth. So then from that point on, China has been playing catch-up, okay? Not necessarily with applying the impressive hardware, you know? Not only the big tech companies like Baidu, Tencent, Alibaba all releasing their own version of AOAIM, really within a matter of three to six months, right? Which is really, really startling speed, you know, from scratch.

But there are also a number of startups, AI startups, you know, developing their own AOAIM. But, you know, at this point, I would say, you know, China's still behind the leaders in the US such as OpenAI, Anthropic, or Google Diplomat. Maybe 12, 18 months, roughly speaking? But the AI race is still ongoing. And right now, the US still takes the leadership role, but I think, you know, on the global stage, China is following closely behind.

Kevin Sneader: Well, if they're following closely behind, there one area where I think many would observe that China has a leadership position is electric vehicles, EVs. Where do you see the EV market evolving, both domestically in China but also overseas? Some would think an awful lot of EV manufacturers, it's very striking when you go to any Chinese city, you see the green number plates with all the EV cars, particularly in Shenzhen or even here in Hong Kong, there's a lot of EVs.

How do you see that marketplace evolving and China's role within it, given the extent to which the volumes depend on being able to export to markets that may be a bit worried about the number of Chinese EV imports that are coming and the concerns around the capacity that's being built in

China for EVs?

Fred Hu: Right. So, you know, with all of China's innovation potential, right? So the massive investing in education, in R&D, and, you know, building a very strong human capital base, very strong scientific research base, and, you know, over the last two decades. So, you know, Chinese universities, you know, churn out the four million STEM fresh graduates every year, right? That's leading the world by a wide margin. China has already eclipsed the US as the largest patent applicant in the world. So definitely, you know, China has, you know, developed the very, very strong innovative capacity and the capabilities.

And the most, you know, clear example is what you just mentioned, Kevin. It's really in the, I would say, whole energy transition, you know, renewable energy, solar, wind, and EV and battery. So China has established itself as the, I would argue at this point, undisputed global leader.

So that I think, you know, in normal times, that seems really brazen, not only for China but for the world, right? So we are still in the midst of early, early stage of global energy transition, you know? We're trying to, you know,

mitigate the climate crisis. But unfortunately, we're in highly abnormal times, you know, in the world.

So the response by US and by European Union I think is not very encouraging. Right, these are the two largest trading partners of China. So not just the high tariffs but they're also, you know, outright blocked. You know, I think that's going to, you know, just, you know, preventing, thwarting legitimate, highly beneficial trade, investment flows, and the technology sharing, right?

Because China has really developed this I think incredible model of EV, enabling mass adoption because it's affordable. It's a lot of really quick and mass adoption worldwide, right? So benefiting consumers in North America and Europe, you know, middle-class families. And importantly, something you and I care about being on the Nature Conservancy Asia Pacific Council is really to enable, you know, really usher in emission-free mobility, right? Because transportation plays a big role in decarbonization and emission reduction.

So if we allow EV smart mobility but also actually, you know, pave the way for intelligence driving, which is

autonomous driving, right, on a worldwide basis.

Kevin Sneader: You mentioned the Nature Conservancy, we both are involved -- you're more involved than I am, but we're both involved in the Asia Pacific Council. And it does beg the question, as you were going towards, of the role that China has to play in the green economy and making sure that some of the challenges on the emissions front are addressed. How would you characterize that element of innovation and the extent to which China is playing its part in the transition to a green economy?

Fred Hu: So as mentioned earlier, in terms of energy transition, China is really the undisputed global leader because of massive investment over many years. So what China has invested in renewable energy is greater than the sum of the investment, the capital made by US, EU, Japan, Korea, you know, combined, right? So and those are high-investment economies.

And, you know, in solar, wind, transmission technology like, you know, super high voltage transmission. I don't know if you've heard this term, you know, like, in terms of the transmission network. And in energy storage of the EV

and the battery supply chain. So you know, China has many of the cutting technologies and are still better, very efficient manufacturing base.

So that outfit will serve China very well as China being the largest energy consumer and still the largest carbon emitter. So it will serve China well. But also can really help the rest of the world, right, to make much, you know, faster meaningful transition. So that all together we can meet the challenge of climate change.

Kevin Sneader: So let's take it now to Primavera, your business. Just give us a little sense of the business and how you're positioning in this current environment.

Fred Hu: Well, it's been a very challenging couple of years, right? So sluggish microeconomy, regulatory uncertainty in China, and also rising geopolitical uncertainty, all have made the private equity venture industry much more difficult than historically.

On the other hand, I'm happy to observe the industry has also proven to be very adaptable, very resilient, and, you know, compared to the US, the industry in this region is

still pretty much nascent, right? Still pretty small. So that means there's still a lot of developmental potential ahead. You know, as markets normalize, you know, if we can see more and more evidence of a sustained economic recovery and then, you know, confidence comes back with a more buoyant public market, I expect to see a very strong pickup in both fundraising and, more importantly, deal making. And hopefully do more with the firm.

Kevin Sneader: We'd love that, too.

Fred Hu: Yeah, so I think, you know, like the rest of the financial industry, I think private equity and venture are kind of like an inflection point.

Kevin Sneader: Let's go back in time, almost to the beginning. And, you know, I read out the very impressive list of businesses where you were involved very early, whether it was in Alibaba and some of the others we talked about. What was the theme? How did that all happen? Just take us back to the early days and was it a pattern? Was there a theme? Or was it more just entrepreneurship? How did you get into where you got involved?

Fred Hu: Yeah, so yeah. We have built a portfolio of over 100 companies, right? So across a range of different industries, you know, from consumer retail, to health care, to technology, and to climate, you know, energy transition. So pretty broad. But I would say, you know, there's, you know, a common thread or underlying thinking is really the emerging, you know, rapidly expanding middle class, right? You know, what they need, you know, in terms of consumer goods and the services. And also, you know, that China joins US as one of the most important innovative leaders, you know, on science and technology. And then of course energy transition.

So these three themes I would say are the sort of guiding northern lights insofar as how to think about sourcing interesting, attractive investment opportunities.

Kevin Sneader: You say the middle class. A lot of observers talk about the demographic headwind that China faces, but I know you've talked about the middle class in China and how that continues to be a very important source of opportunity. Why?

Fred Hu: You know, so roughly speaking, right, there are, like, 800 million middle-class consumers in China. So that's still under -- it's a big number, but it's still under 60% of China's total population. So compared to 335 million in the US, the total population, and the 449 million for the total EU population. So just look at the 800 million middle-class consumers, which is, like, you know, compared to the EU and US. And private consumption as a percent of GDP. I think it can be -- this is at 45%. That's just abnormally low. You know, India, for example, is 60%. US, you know, typically 70%, right? So each incremental, you know, increased percentage of, you know, consumption GDP share that will unleash tremendous demand to supercharge the economy, not only for China's economy but for the world economy.

So there's a potential for Chinese consumers to, you know, demand that the spending will, you know, drive the Chinese economy and world economy akin to the role of, you know, that the US consumers have with strong gains, right? Almost the, you know, consumer spending of last resort. So that I think is, you know, is happening, remember, you know, even before pandemic, you know, 2019. You know, what the Chinese consumers were really

the driving force for, say, European luxury industry. And, you know, for smartphones, you know, food, soybean from South America, you know, of course EVs, right? You know, Chinese consumers are the primary, you know, spender.

So admittedly, as we all know, last few years, consumer sentiments are weak. But it's not because they don't have the spending power, right? Chinese households, despite the hit on property or even on public equity, Chinese household balance sheet is still healthy. Something that keeps going up. You know, they just need a bit more confidence so in terms of labor market, in terms of, you know, private sector. So that I think as we speak, you know, I think maybe is the beginning of a pickup.

So that will come back. And not only just for the short term but over the mid to long term. You know, that will be -- should be, like, very much in the US after World War II. You know, Chinese consumer, middle-class spending should become the primary engine with China's GDP growth. And we're just at the very beginning, so that's why I still have a visible bull case for China's mid- and long-term economic growth on the back of my faith in Chinese consumers.

Kevin Sneader: It's good to have faith in the Chinese consumer. Now, if you look at the landscape of where that could take us, I mean, you've already talked about green tech and a lot of the activities there. We talked a bit about AI. You did mention health care. You know, it's an area where I know you have been focused. Talk to us a bit about the healthcare landscape and why you think that's an area to keep in mind.

Fred Hu: So health care is also just really as a big part of the rising urbanization middle class, right? You know, when middle class, you picture -- you know, you have a home, you have a car, you have every other, you know, gadgets, you know, you might need. So it's really the, I would say in China, it's education and health care. That's where we're going to see more and more share of household income on those categories.

And the healthcare opportunities is very, very big. I'm sure there are experts in this room. It's a very big industry, right? From pharma to medical devices to healthcare delivery. And we have seen over the last couple of years here growing opportunities in each of these areas, right?

So China, until maybe five years ago, I would say, you know, is anywhere in terms of drug discovery and, you know, innovation. But now, as more and more startups are highly trained, you know, PhD in life science, you know, bioengineering. Medical device, again, you know, definitely US, Japan, Europe are still the leader. But China is, you know, rapidly catching up with some really niche areas. You know, China become very, very highly developed partner of egg cells.

And then of course healthcare delivery. That's even bigger industry, right? You know, it's still early days. You know, for example, have invest in private but the leading specialty hospital chain, you know, especially in the cardiovascular treatment. So as, you know, people get richer lifestyle, unfortunately, with that, you know, cardiovascular disease, you know, incidence becomes very high. So there's enormous gap between the demand of services and the supply. So this is a, you know, really a major high-quality private practice.

You mentioned demographics. You know, conventional wisdom say, well, given China's aging very fast, so

everything is negative. But in fact, you know, smart money will quickly recognize there are opportunities. So even with the rapid aging, there are new investment opportunities, new value creation opportunities popping up.

Kevin Sneader: Maybe we should go back to before you founded Primavera. You were the Greater China chairman of Goldman Sachs. And in that capacity, I think you hosted the great and the good as they arrived, whether it was Hank or others. What are your memories of that time? What was it like?

Fred Hu: Well, I have very fond memories of my days at Goldman Sachs. I –

Kevin Sneader: Just as well that you say that. That's good. Keep going in that case.

Fred Hu: And, you know, I guess the – you know, first is what the work I was able to participate that is very intellectually, emotionally, you know, stimulating and rewarding, right? And then the wonderful talent, the colleagues I, you know, I met, many are in this room, you know, Ron and others. You know, so we still stay as close

friends, even after all these years after my -- since my retirement, right?

Yeah, so, you know, I had, you know, amazing career at Goldman. And, you know, every time I look back, you know, I -- you know, sweet memory.

Kevin Sneader: What was it like hosting Hank when, you know, he was coming out in the early days, former treasury secretary and sort of important guy around town? And you're here. He's coming through. You know, we're building a business. What were the things you were doing?

Fred Hu: Yeah. I had really incredible opportunities to work very closely with Hank during my time at the firm. I learned a lot from him, right? And it was really, really very strong partnership and also mentor-mentee relationship. And together, you know, we were involved in some of the very impactful, you know, as though the franchise defining transactions. You know, it's a lot of fun.

You know, Hank, you know, many of you know him. He's a very distinctive leader, right? So he's a dynamo, right? And personality-wise, quite impression, right? We're –

Kevin Sneader: They're laughing. I think quite –

Fred Hu: Having trouble sitting still. Always action oriented, right? So I'm kind of different in I come from sort of academic policy background a bit more. So trying to restrain him.

You know, I think in terms of how serving clients and really how he impacted, right? So kind of my -- back then, I think it's to some degree still true. You know, and I'm sure, you know, you know, right? Given your background, Kevin. At that time the Chinese, whether it's leaders in the government, you know, in the industry, yes, they're interested in our idea, proposal in terms of how to do a transaction, but they were even more interested in the big policy, strategic ideas, right?

So, you know, Hank and I talked a lot about this with Hank. So, you know, when you go to China, don't just -- so, you know, make sure, you know, just get to the deal and ask your pitch for a transaction, right? Let's really engage with the Chinese leaders, you know, because, you know, they are facing, like, tremendous challenges back

then, you know, building modern free-market economy. They're very smart. They had this unquenchable thirst for knowledge and for information, for ideas. So if we position ourselves as a thought leader, right, you know, we would, you know, have defined the way to build the best-in-class kind of relationship that could be long lasting and others will follow, okay?

So it's really amazing given what you know that Hank's presenting. You know, I was -- you know, he was very patient, meeting, you know, Chinese clients, talking to all those microeconomic policies, you know? US-China relationship. And some of conservation. You know, he's a very big, you know, conservation -- you know, passionate about the conservation. So those are so many far removed from day-to-day, you know, commercial deal making. But actually have had a long-lasting impact.

Kevin Sneader: Okay, we've had a chance to talk about China in the past, China the future, your past, your future. There's a lot of ground we've covered, and I think it reflects the enormous range of interest and experience that you've assembled in your career. And I know the best is yet to come. So we look forward to continuing this

conversation, but for today, thank you for being our guest in Goldman Sachs Talks. Thanks, everyone, for joining. A big hand for Fred Hu.