Transcript of Interview with Gao Xiqing

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Interviewed by
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July 16, 2014

Note: This is a verbatim transcript but with minor editing for clarification.
Garten: I would like to begin by asking you as the founding leader of CIC, when you look back at the period in which you were running the organization, the three or four things that you're most proud of having been able to do.

Gao: Well, first of all, I can't say I'm that proud. I always look at in spite of the things that are not complete, not totally satisfactory. I was trained as a lawyer. That's my bad part, so – [Laughs] – I've been trained to be critical of things that I have done. But still, when you look at it, given all the constraints, I would say that I'm a bit proud of the team, the professional team, that we have built within a relatively short period of time, with all the constraints, political and otherwise, and what happened during that period. I think it tells all the issues relating to a major state-owned enterprise that you understand in our situation. And the issues range from compensation issues to corporate culture, and to a whole set of internal roles and procedures. I mean, not just internal CIC, but internally within a government. We are very much treated as a government agency.

Garten: Right. In terms just of sticking in the same realm, in terms of setting the strategy – because it's a brand new organization, and my understanding is that an awful lot of the strategy was delegated to
you from the beginning. That must have been a big challenge as well.

Gao: It was a huge challenge because no one, until then, had had experience in running that sort of a company in China, because over the past 37 years of open door and reform, all that, we've had a few tries. We've had companies like CITIC, like some of the state-owned enterprises, that were regarded as an effort to invest abroad. But none of them were given the kind of wide range of mandates to do anything but make money, basically.

So, we're the first crop of people who all of a sudden found themselves with all the possibilities, yet without enough experience and without enough necessary personnel, and all these things. So, it was a huge challenge to us. That's why I said early on that, looking back, I think we've done relatively a good job in attracting an army of people very well trained by Western financial institutions. Also, during that same period of time, in early days especially, we were able to come at it with a whole set of what I would call asset allocation policies, the rules. None of these things anyone did before, so we were basically given the mandate to create it ourselves.

So, I'm not saying that we have done something wonderfully well.
But given the constraints, we've done reasonably well. That's what I'd say.

_Garten:_ Well, from my experience in a few American administrations, I have seen how difficult it was to do something from scratch; to be entrepreneurial within a government setting. This is always something that is very unusual, and it requires sort of a certain mentality within another mentality. I think that the accomplishment just of getting it off the ground and getting the ship pointed in a right direction, and having the right crew – I realize you're being very modest – but those are enormous accomplishments in any government.

But let me look ahead now at the next decade. I realize you are not in charge of CIC, but how would you describe the big challenges that it faces? When I say challenges, I don't want to ascribe a negative connotation to that. But every organization faces different challenges and different opportunities. But if you looked at the next decade or so, you pick three or four of those, what would come to your mind?

_Gao:_ Well, I can mostly think of two major things that I think we will have to overcome in order to maintain our status in the world financial arena, if we were to do well at all, even if we were to
exist at all. One of them is the inevitable bureaucratic tendency of becoming a very risk-averse, lazy, arrogant SOE (state-owned enterprise.) There's always this very strong tendency towards that by – I wouldn't say every SOE, but by those SOEs, those of us who have worked on both sides of the world, you always see that sort of very natural tendency amongst the instinct for those.

And the fact that we were able to overcome that for a period of time was rather an abnormal thing, rather than the norm. Therefore, over the past seven years, I constantly remind everyone in our institution, try to remind people who have any regulatory power or anything over us, that we need to overcome that in order to remain as a good institution. That I think remains to be seen as whether or not we are going to be able to do it. I mean the leadership in CIC and more importantly, the leadership above the CIC.

And the second part, the second tendency I would say – I'm just being very straightforward on this – it's the politicizing tendency of becoming a sort of tool, instrumentality of certain agencies. I'm not saying that as a cynic, a person with negativity, but I basically think that every government owned enterprise, and every sovereign wealth fund will inevitably have some sort of pull on that side. But, sometimes that tendency becomes stronger as some
governments and some government agencies become very tempted to utilize companies like ours to realize certain gains, which is not in the long term interest of the country or the people, and of the interest of everyone else. So, what I would hope is that the company, both the company's leadership here and the leadership in the country, would understand that. So, for CIC and for sovereign wealth funds to try to resist that kind of temptation to make it a much more of a political tool.

_Garten:_ Now, in some of the talks that you have given, you have referred to kind of the US and China in the realm that you were dealing with as having a relationship that was undermined by some real distortions in thinking. I wonder if you could elaborate on that a little bit. You had a very intense experience in the investment arena, which really raises a whole bunch of sensitivities. When you talk about misunderstandings or distortions in views of one another, you have the advantage of really understanding both cultures. So, let me break it down by saying, when you looked at the US – your experience in dealing with the US – what kind of real misunderstandings existed when it came to dealing with CIC?

_Gao:_ Today, I would say the misunderstanding part is really not a big issue anymore. There's almost no misunderstanding now, but there's major unfairness and un-transparent, almost politicizing
issues there. In the early days, when we were first established, there was a misunderstanding, and people thought we were going to be a tool of the government purely for the benefit of just some Chinese government agencies. But eventually, after a considerable amount of persuasion and having done deals with the people, and having observed how we behaved, then more and more people started to understand what we are.

But, the problem is that there are certain agencies – I refer to the CFIUS (Committee on Foreign Investment in the United States) mechanism – which I wouldn't say in the sense is a misunderstanding: I understand that's sort of what you guys would call national interest of the United States. I understand; every country has its national interest. But the thing is, if you view yourself as being a bastion of transparency, a laissez-faire economy, of a level playing field, all these things, and you keep telling people that, “We welcome all foreign investment and we treat everyone equally,” but then at some point you start looking through your tinted glasses of whatever ideology or reasoning. Then, people get surprised. I get surprised.

I thought things would be different. But looking back, I understand where that came from; why some of the CFIUS agencies would treat things like that. But my only disappointment
is that the whole CFIUS mechanism makes it impossible for anyone privy to the same to be silent on that. So, we at least need to get some sort of explanation as to why did you make that decision that's making it difficult or impossible for us to invest in certain deals. We don't understand. So, can you explain to us?

Because next time around we are going to be more careful. We don't want to go into spending millions of dollars on intermediaries, and a lot of man hours on due diligence, only after that being told that, “Okay, we don't like you. Go away. But we are not allowed to tell you the reason.” That, to me, that's very unfortunate.

_Garten:_ So, as time went on, you feel it's really the lack of transparency, and the inability to basically say, “Look; here's why the investment couldn't go through. There were three reasons,” so that you could at least have addressed it.

_Gao:_ Exactly, exactly. You know, these people, the CFIUS people - I don't want to elaborate on specific things, specific people, because these are good people that I talk to. They are all reasonable people. But they say, “Well, we are constrained by the law, but I can't tell you why.”
I understand if you say, “Okay, it's because of your country. It's because of the color of your money.” You can say that, and I will gladly go away. I would say, “Okay, so you guys think that the Chinese money you can’t accept. You can find someone else; someone in Europe, or someone in Latin America, or somewhere else.” That's fine. That's just your money.

Now, you can tell me that straight to the face, and I would understand. But the thing is, they can't say, “Well, we do have a level playing field.” That, I don't accept. That's very unfortunate.

Of course, that's viewed from our side. But at the same time, I'll hear some – not in a negotiating table where people would have to talk the correct political line. But in private talks, some of those people said, “Look; your government would not allow our people to do probably the same thing.” And I said, “I agree.”

But the only issue is that our government has never said that, “Okay, we are level playing field. Just come in and we'll treat you well.” So, you wouldn't go into the trouble of doing due diligence and spending money on all these things, and only later to be told that, “We don't like your money.” That's the issue.

So, reciprocity definitely is an issue, but it's not directly related to
this issue. I understand the reciprocity. I understand the reason why people would be concerned with people that have a different religious belief, or different ideology, or different cultural background. Just say it. I don't like hypocrisy, that's all.

Garten: When you look down the road in terms of dealing with the US on the plane that you did, is there something about this situation which is basically unalterable, or do you feel that with more and more experience of the two countries dealing with each other in terms of FDI (foreign direct investment) that you'll actually de facto see a more transparent situation? Or, are we kind of destined to have this sort of challenge all along the way?

Gao: I'm a very optimistic person. I always look at the brighter side of things. I believe long run, the two countries and two economies cannot live without each other. I believe that people, generally speaking, most people are – we're all good in nature. So, when people understand each other more, and when people understand the culture and ideology and everything else more, then they'll be more understanding.

And they will probably come at it -- not necessarily come at it a way that will be more beneficial to the other side -- but really, they will be more transparent and more predictable to the other side.
And that will make at least the financial word, investment world, a little better place.

Garten: Okay.

Gao: But that's a long run thing. It really depends on which administration, on dialogues and communications. I think we're on the right track. The two countries have been talking much more frequently than before, and I see many, many more Americans trying to study things relating to China, and even many more Americans trying to learn the very difficult Chinese language. So, that will eventually make things better.

Garten: Okay. Let's take this off the lens of CIC and the US, and let me ask you a question about Chinese foreign direct investment more generally.

You know, from the American standpoint, there is a sense that China's direct investment in the rest of the world is going to reach very large proportions. That is that, although it's been growing, we have only begun to see the full extent, in large part because the capital markets are going to be much more open over the next decade or so. My question is first, do you subscribe to that? That is, that Chinese companies will be really major investors all over
the world?

Gao: Well, to a large extent I would agree that China's direct investment abroad will grow rapidly, at least for the foreseeable future. This trend would continue so long as the economic situation improves with the political response that gets implemented at the state by the 18th Party Congress. By reading through all the communiqué and public announcement, the party of the government, I'm optimistic. I don't know if you could call it optimistic, but probably for a lot of people in the world, this may not be a good thing for the Chinese as it's a natural development of our open door policy that Chinese investment would go abroad.

But I say that with a caution, though, because so far as you can see, the reform process has been going forward, but with very, very measured pace. And a lot of people are still observing very carefully as to whether this will continue, or whether this course might be diverted to a negative direction. I hope that it goes that way, but there are many challenges. The challenges we face today – when we say something is challenging for the Chinese economy, we'll continue to grow and for the companies to feel the need to invest abroad – are really much more internal in China rather than international. I know at some point, countries may not like the trend, but most countries would welcome the Chinese investment
in their countries.

I've been traveling the past few years a lot and I've visited many countries in almost all continents. Most countries generally welcome the Chinese investment into it. So, the challenge is really on the Chinese side; on our economic and political arena.

Garten: Now, the challenge I was going to ask you about – I understand that sort of the relationship between the reform program – but let's just make an assumption that even if it's not totally smooth, reform goes in the direction that it's moving, and Chines companies move abroad in a much greater volume than they have so far. What is your evaluation of the ability of Chinese companies to be really effective investors? That is, are these companies in the main global in their culture and their orientation? Do they have the kind of management that could really effectively oversee a portfolio of international investments?

I know that the Chinese companies are very big, and I know that in certain industries they have some great advantages. But looking at it as a cadre of multinational companies around the world, how would you describe their management capability, broadly defined?

Gao: Okay, I understand your question, and I certainly agree with your
sort of connotation that most Chinese enterprises, if not all, have
had that sort of challenge. But given time, people will become
more sophisticated. The Western countries – or, the Western
companies have been investing abroad for hundreds of years.

So, they have had a very long history of investing globally. And
many other companies don't even have their nationality, so to
speak. For China, it is a huge challenge. But that challenge to me
is technical, is overcome-able, because it is a big country with lots
of talented people. Today's world is a lot more transparent and a
lot more open than, say, 100 years ago. So, I'm not terribly
worried about that. It's going to take maybe a few decades.

But my worry is really on the other side. At the present time, when
you look at the large chunk of the investment going abroad, but by
state-owned enterprises, and that would come with the typical
bureaucratic constraints of these SOEs. That will become a
different issue. That's why in some countries, especially in the
Western world, our investments are met with some raised
eyebrows and in some cases, even within a CFIUS realm, you can
see that a lot people treat SOEs differently from the private
enterprises, for understandable reasons.

Because SOEs sometimes, their decision making process, their
personal politics; they have a way they carry businesses that very often would not be purely fitting in the profile of a money making process, but rather sometimes people would suspect that some of the companies may have a different agenda.

But that's sort of relative to its long term or short term goal. To me, these things are being changed gradually, because more and more SOEs now in China are becoming more or less owned partially by private companies. And more and more of these companies, they are getting more sophisticated, and they are hiring people with professional skills. But the overall control of the state over these companies in a very heavy-handed way, if that doesn't change, then there will always be this friction, both internally and externally. I hope that changes, and eventually things will become better.

Garten: I want to move to the category of sovereign wealth funds generally – but obviously, your experience has been with CIC. It is often said that one of the advantages that sovereign wealth funds have is that they almost by mandate, are being asked to invest for the longer term. One would think it means that they don't have to worry about short term fluctuations, and they have the luxury of really asking the most fundamental questions and sticking to it. What I wonder is, from where you have been sitting, is this a
theoretical notion, the longer term? Is the longer term nothing more than the sum of a lot of shorter terms, or in fact would you say that the way that CIC and others look at investments is genuinely much more longer term than other kinds of institutions?

Gao: Well, that's a very interesting question. CIC started out as what we hope to be a long term investment. When we presented our policy documents to the state council, we said we'd like to be evaluated by a five year period, rather than quarterly or annually as the evaluations for most other SOEs in China are done. But after two years, everyone noticed that five years was not long enough so we persuaded the government to accept a ten year period for evaluation.

Actually, we started with all these other sovereign wealth plans, and many of these plans are much longer term in that regard. Many of the Middle Eastern funds and the Singaporean funds, when you ask them, they don't have the jury kind of regulation on that. They say, “Well, we are 25 years,” or, something, “We're 20 years, or 15 years.” So, basically they are saying that we don't look at short term.

But that's just a notion. In reality, if you look at the way a particular sovereign wealth fund is regulated and controlled,
especially in China, then you know that sort of long term notion very often is constrained by a lot of other factors. Like, the personnel changes. For instance, our then chairman Mr. Lou who is not a financial minister, used to say a joke to people that, “I would love to be long term, but the problem is that if I don't make money in two or three years, I'll be fired.”

He said that as a joke, but most people of today, look back; it's probably true that if you are being controlled by an inexperienced mechanism -- people who do not quite understand the virtue of true, long term investment -- and also are commented on and critiqued by a very inexperienced media where you do not have the sophistication of, say, Wall Street Journal or New York Times. The media would constantly comment on your short term losses and gains, and stuff like that. And so the leadership would not be totally free of these influences, and that would, at least in our case, put some pressure on the leadership to do certain, or not to do certain things. I asked that question to a lot of other sovereign wealth funds and most of them -- many of them, I would say; I wouldn't name them – but many of these people told me they had encountered the same problem.

Garten: So, would I be right in thinking that at the end of the day, there's an effort to look at the long term, but that de facto, you're conscious
of shorter term performance, and so there's an internal tension that exists between what you know you are set up to do, and the political realities of the situation that you're in; and therefore, it makes a lot of those investments less than long term, because if things start to go so sour, you don't have the foundation to just hold on.

**Gao:**  You're absolutely right. You're absolutely right. That's often the case. Many of the projects we invested in early on, we had a long term goal in mind. But eventually, what seems to happen is that would make some people, what I would say short term investors worry, and then that worry would go through our institution, just like that. So, I know that's what's happening.

**Garten:** Sovereign wealth funds have been around for a long time, as you know. But when you came into existence, they suddenly got a lot of attention. There was a period where there seemed to be a lot of anxiety in the West, that the West had discovered that there were sovereign wealth funds and a lot of money being managed by them. I'm just wondering; do you think that since CIC was established, the global attitudes toward sovereign wealth funds as a group, as an asset class, has become much more relaxed once they realized that in the main, you operate pretty much like any investment manager. Is that true?
Gao: Yeah. I would certainly agree by and large. In the early days, when we were established late September of 2007, during the end of 2007 and early 2008, we saw a lot of negativity in the West, especially from some of the state leaders. And some of these leaders still are in power today. I observed a change of their attitude towards us over the years. In time, we have made a lot of efforts to go out and reach out to the media and explain to people who we are and how we do things.

I think most importantly, it’s through our investment in the past few years, gradually the people started to see how we do things. So, the people started to understand it. But most people, now, feel much more relaxed, I would think. As I said earlier, I hate to say it, but a sort of ideological plague is still somewhat there, lingering behind us.

Garten: I think one reason – see if you agree with this – that there's been a much more positive attitude towards sovereign wealth funds is the ultimate of pragmatism, and that is that other investors actually want to do business with them. There's a lot of money at stake. These are sources of funds. They have real commercial objectives, and investors in the West who have good relationships with foreign governments feel that this is a very positive
opportunity. Or, put it another way; no major sovereign wealth
fund has behaved in such a way that you would say, “Hey, I don't
want to be partners with them.”

Gao: Right, right. That's true. But only in cases where I complained
earlier that it's when we got what we see as unfair treatment by
certain governments that that sometimes will send a chilling effect
within the investment community. Some people told us that the
next time around if it was a similar investment opportunity, they
would be reluctant. “Well, then once we get you in it takes a long
time, and then eventually you have to pull out, and that makes
everyone suffer.” So, that's a different issue, but it's related.

Garten: So, here's my final question, and it has to do with sovereign wealth
funds in the global economy looking forward. It's my impression
that most sovereign wealth funds are not preoccupied with having
a majority ownership position. They do the same kind of research
as other asset managers and other investors, and they follow the
trends. I'm just wondering whether you think that as a matter of
participating in the global economy, looking forward, whether you
think there are any new patterns that one might identify or possibly
identify, that sovereign wealth funds as a class will be moving
towards. And let me give you an example:
Would they be less passive and more active in terms of, investing in or building partnerships with other kinds of investing organizations? Is this a trend, or would this be a trend?

_Gao:_ I doubt it. I doubt it. With all the constraints of sovereign wealth funds – they are state owned; their personnel very much decided by the bureaucracy, and the compensation scheme, their decision making process, and the fact that they’re being watched much more closely by the media and by their people, by their congress. These all would put a lot of pressure on the sovereign wealth funds to become more nimble and more effective in terms of taking controlling interest.

So at least in our case, in a few cases that I can see, I don’t think most of the sovereign wealth funds would want to, and even if they wanted to, they would eventually be effective in doing that; getting into a more aggressive field.

In some cases, on a smaller scale and in some specific things, they may invest in one or two projects in a controlling way but that’s usually viewed as taking a bigger risk than necessary. We’re audited by the state auditing bureau several times, and they view us as part of development. So, whatever decision you make, they would first look at the process. And you know once you start
talking about process, most of these major deals will be gone. So, I think sovereign wealth funds, they serve some certain useful functions; they may come together and say, “Okay; we want to serve certain public goods.” Like, in our case, we say, we don't invest in companies that produce mass destruction weaponry.

We don't invest in tobacco industry, because it's bad for people's health. We don't invest in gambling facilities, because it's bad for the culture. Things like that. And I know many, like the NBIM (Norges Bank Investment Management), the Norwegian bank, they have a lot of their taboos, which when you look at it you’ll understand. It's a good citizen, public citizen, kind of thing.

With the size of these sovereign wealth funds and with common forums that were established in 2008, if you mesh that together and say, “Okay, let's join – try to be a better organization to promote certain common goods,” that's fine. But as to the commercial side, whether or not these people would design certain products that will make it more effective, I really greatly doubt that.

Garten: So, basically, I think what you're saying is in order to think about sovereign wealth funds for the future, you really have to understand where they're coming from in terms of what they're part of; how their decisions are made; who at home is looking at them,
and the mission that they have to make respectable returns. And so, one should put on relatively conservative glasses in thinking about how they will act going forward. Do I have that right?

Gao: Yeah, yeah. I certainly agree.


Garten: Well, Mr. Gao, I really want to thank you. For me, this has been a really interesting discussion, and I think you very gracefully covered an enormous amount of grounds in terms of not only CIC, but US-China, Chinese companies in the global economy, and how to think about sovereign wealth funds, recognizing that each one is different, but as a class there are some common elements. So, once again, I want to thank you for your time.

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