

# CHINA'S INVESTMENT OUTLOOK AMID A NEW POLICY ENVIRONMENT

**Announcer 00:00**

Please welcome the panel on “China's Investment Outlook amid a New Policy Environment,” moderated by Asia chairman at the Milken Institute, Robin Hu.

**Robin Hu 00:28**

Good afternoon, and thank you for joining us this afternoon. And it's the first time I'm a panel with two Hus and two Lus. So I'm therefore very thankful that we have Secretary Rubin with us. I'm not going to spend time introducing who are the speakers on the panel. You know who they are, and I'm just going to dive in straight to the question. So the first question for the Secretary. Given your experience in championing free-trade agreements like NAFTA during the time that when you were secretary of treasury, how do you assess the current administration emphasis on tariffs and the strategic decoupling from significant portion of the global supply chain? It is Chatham House rules.

**Robert Rubin 01:07**

Let me ask you, are we on the record, off the record, what are we? Was it Chatham House rules? I don't think they have the foggiest notion of what we're talking about. That's what I think. I believe strongly. And I think—Larry Summers made a comment the other day, which I think was right. He said that virtually every mainstream economist, except for the people who work for Trump, believe in comparative advantage. And I think the more you think about comparative advantage, the more logic it says. Now, people who know Trump for a long time told me that, as early as the 80s, he had this belief in two things, tariffs, and that other countries were treating us unfairly if we had a trade deficit. I think neither of those propositions are true. But I—and I'll just conclude this by making a statement—it was, to me, a very troubled—an observation that, to me, is very troubling. We had an we had an international, global trading system. China clearly was up, at least, in my opinion, was violating it in certain

respects. And I think that did need to be dealt with, but now we're tearing it apart, and I think it's immensely detrimental to the United States. And I think it's... What's this thing say...? Oh, we're on the record. Okay, who cares? They can deport me or something. And even if they do, I'll have my choice of places to go, because I can afford to do that. [laughter] We're tearing apart an international trade regime that it seems to me served our country and the world very well. There clearly were problems, and one of them was dumping by China, but that we could have dealt with in a very specific kind of way instead of tearing the system apart. So that's my—Oh, I'll just make one observation. We also had a system of alliances that we built up—we the United States, built up following World War Two that have served us extremely well, and now we're turning our back on that. And I think that—that is enormously unwise geopolitically.

**Robin Hu 03:02**

Right. And against that particular backdrop, with all that measurement that's been introduced, right? I mean the export controls, the tariffs, the tax cuts, and so on and so forth. Do these policies undermine the benefits of the global economic prosperity in your opinion? Or do they represent the necessary and unnegotiable evolution of the trade strategy to address the geopolitical competition. That it was a strategic necessity.

**Robert Rubin 03:02**

Yeah, I think it's the exact opposite. I think that our best posture with respect to meeting our geopolitical challenges, which includes, I might add, the coming together of Russia, China, North Korea and Iran, is to maintain this global trading order that has served us very well, not only economically, but in terms of our relationship with the rest of the world. So I think we're doing this counterproductive economically and counterproductive geopolitically.

**Robin Hu 03:41**

And how do you think that we can wind down from that?

**Robert Rubin 03:56**

Wind down? Oh, I don't—I think we've got a heck of a problem because we have an administration that's committed to this. Well, I want to add one other comment, by the way, that is committed to tariffs. I think, by the way that—one caveat to everything I've said is I think it is important to secure our supply chains in areas that are important for our economy and our national security. And so I think that is right. And also there probably are some areas in which lateral effects are—you could do one thing and it causes something else to serve something else and serve development of something else. And that's another area where you might have some weird protectionism justified. But—I think another, just another aspect of this is we have a trade treaty with Mexico and with Canada, the USMC. And now we violated that. And what kind of questions is that going to create around the world about our fealty to our commitments. I think all this is usually counterproductive for the United States and for the globe.

**Robin Hu 05:04**

Right. Is this an effort to reset what is being perceived as being unfair trading system for the US?

**Robert Rubin 05:20**

Yeah, I get it. You know the point—the point that is some—that they—those who have that view make is it's unfair if we have a trade deficit. I think Larry Summers is right in saying there's virtually no mainstream economists in the world who would agree with that. Yeah, we have trade deficit for some countries. We have surpluses with others. Overall, we have a trade deficit and in time—now that actually can cut both ways too. If we have a current account deficit, let us say, not trade deficit. If you have a current account deficit, and then you have an inflow of capital, and the capital is going into investment, you actually can be you can be better off in terms of growth. If, over time, you have a global account imbalance because of consumption, then market forces will eventually correct that.

**Robin Hu 06:08**

Right.

**Robert Rubin 06:09**

What is usually counterproductive is to try to do what we're doing now.

**Robin Hu 06:12**

Will you recommend a very quick conversation on the phone between Mr. Xi and Mr. Trump?

**Robert Rubin 06:17**

Would I recommend that? Hehahaha. You know you got a problem. Let me tell you. Hank Paulson had a very good piece, I think it was in the Washington Post today, or I got it online today, about how to move forward from the current situation where there's massive distrust in both countries of each other, to where we should be. We—both countries have this enormous self interest in a constructive relationship, recognizing it'll be competitive. You have climate change. You have nuclear weaponry, the potential for nuclear weapons to be sold or nuclear capabilities to be sold to terrorists. You have the need for international trade norms. You have pandemics. You have AI. I've been taking a tutorial on AI for the last year and a half, and it has immense potentials on the plus side. But as Henry Kissinger and Eric Schmidt wrote in a recent book, it also has tremendous potential on the negative side. China and United States together, if we had a cooperative relationship, using our combined economic might—could I think—

very substantially improve the way the world deals with all of these. Instead, we have this enormous distrust in both countries. And Hank had this piece in today's—I got it today. Maybe it was yesterday's Post, I don't know—about how to try to move from where we are to one where there is a cooperative relationship, or at the same time, competitive and recognizing there are differences that we simply have to deal with in the context, hopefully, of a cooperative relationship, not an antagonistic relationship.

**Robin Hu 07:40**

Well, we'll come back to the AI point in just a bit. But in the meantime, Kevin, want to add something to this conversation.

**Kevin Lu 07:46**

Sure, I think I would leave the discussion on the tariff itself to the trade experts and policy experts. As the investor, I look at the China side. If you look at one of the reasons, I think, for some to advocate for a tariff, as the secretary has mentioned, is the perceived deficit and surplus situation, which is then in turn on the China side, is really driven by a Chinese economy that has been probably excessively dependent on export investment and infrastructure rather than consumption. So I just googled the line. I'll read it. I'll let you guess who said that and when, right? It says, "China should unswervingly take expanding domestic demand as a long-term strategy for economic development." You would think that come from the US Commerce Department. That was 2013 from Premier Wen Jiabao in his speech to People's National Congress. So the Chinese economic problem of over-reliance on export and investment rather than domestic consumption is a long-term issue. It has been there and it's a real problem, right? Obviously, whether the best solution is to install 145 or whatever that number is today of tariffs, that's an entirely different question. But there is a fundamental problem, economic problem on China's side. They need to resolve, tariffs or not. As an investor, I think that is always in my mind.

**Robin Hu 09:15**

Well, Kevin, explain that. I mean, 12 years later, we are no better at encouraging domestic consumption on the part of the Chinese economy. There's some metrics, if I'm not wrong, I just read that the household spending relative to the total GDP in China is 35 percent. In Japan, it's 53 percent, and in the US, it's 69 percent. So that just goes to show—I mean okay. In the US, of course, the consumption pattern is very high, and then you get a credit line for consumers spending as well. In the case of Japan, of course, there's aging population, 53 percent aging people, you don't spend as much. But in China, you have a median age of 38, and it's 33 percent relative to GDP. So something is not quite right there. You want to comment on that? Or before we ask Fred, the foremost macroeconomist to comment?

**Fred Hu 10:13**

In East Asia, starting with Japan, the four economic dragons and of course China. Generally, it's like investment, expedite growth with a very high domestic service rate. So consumption has been a little low. But after certain period, as we have seen in Japan, you mentioned the example of Japan and South Korea and Taiwan, we do see over time personal consumption in relation to GDP will rise gradually. So China, I think, is at the inflection point. You know, until recently China, you know, pursued very much export investment, late economic growth. You know, but the last few years, you know, pandemic and domestic regulatory uncertainty plus some geopolitical uncertainty, certainly dampened the consumer sentiments. So consumption as a share of GDP has not risen meaningfully to offset whatever the external you know, sectoral weakness, including the latest tariffs. But, you know, there are efforts underway on both regulatory front, but also microeconomic front to revive consumer sentiments and, you know, pave the way for more sustainable private consumption spending. So I, you know, it's a challenge, but it's also a vast opportunity for China right now.

**Robin Hu 11:05**

I think that's a great point. And there is also a school of thought. I that is China being a Marxist-Proletariat, production and production, capacity and capacity comes foremost to mind. Whereas consumption is a form of excess capitalism in the eyes of the Marxist-Proletariat. So how do you reconcile that and China being a combination of a market economy, we know that is the case because it's very competitive in Chinese market. China is also a Marxist doctrine, and at the same time, Confucius in terms of value. How do the three blend together to produce a society that is high on consumption?

**Fred Hu 12:22**

Robin, rest assured, okay, very few people in China out of 1.4 billion still, know, toe the line, you just quote it, okay? China is really, really vibrant urban middle class. Most people, they work very hard, they save, but also they increasingly willing to spend, not just EVs, latest smart gadgets, travel internationally on education or health care, yeah, fancy Bordeaux, Burgundy wines, and European luxuries. So China has proven it can be a force to be reckoned with in terms of consumption. So it's a period right? When, in the early stages of economic development, you need to build modern infrastructure, you need to build manufacturing base, you need to invest in R&D, in technology innovation, so you invest more. So you temporarily reduce consumption, to use the savings to fund the necessary investment. So now China has reached the point, you know, the infrastructure, you know, I would say, is nearly, or even at the world class, right? China has probably globally most efficient, competitive manufacturing industry. So it's time for China to really ramp up private consumption. And I think the government recognized that there are policies in place. And both, again, on the macroeconomic side, fiscal and the monetary, but also on the retail side, in terms of social security, labor mobility to facilitate more consumption.

**Robin Hu 14:12**

Alright, Secretary.

**Robert Rubin 14:13**

Fred, can I ask you one question? I remember a long time ago, Larry Summers and I were visiting with Zhu Rongji in Beijing, and we're talking about this very subject, and he said, "We need to increase consumption." So we had a number of suggestions, none of which, I guess, were politically feasible or something. But would it help, if you had maybe you have this, by the way, I'm not current enough to know, but I remember the time we said to Zhu Rongji, who we knew pretty well. I even once said to him, I think you're outstanding. You should come use the United States and run for president, but we do have a constitutional problem there. But leaving that aside, you have a credit card system, and if you didn't, would a more robust one increase consumption, and secondly, if you have better social safety nets, would that increase consumption?

**Fred Hu 14:54**

Totally, you're absolutely right. So on credit card personal financing. So, right now, you know, Chinese household sector is a net credit to the economy—they lend more to the rest of the economy than they borrow. Not only borrowing is a mortgage, residential mortgage, right? But on even on automobile, China now has overtaken US as the biggest market for vehicles. But mostly, you know, car purchase are financed by cash, okay? And, you know, non-recourse consumer financing is non-existent, so there's no way to go for the Chinese banking system to develop more consumer credit to ease the kind of liquidity constraint for consumption. Definitely, I think, is still work in progress. On the social security front, pension, health care, unemployment insurance, are still very rudimentary. You know, Zhu Rongji was the leader who really tried to do something. I was involved in some of the, you know, symposiums. So now we have individual retirement accounts, but given the rapid aging population, I think a pension system is still not robust enough to inspire consumer confidence—of old, old age—income support and unemployment insurance is also payable minimum—so right now, you know consumer—in the good news, Chinese consumers are not spending big, it is not because they don't have money. Rather, it's because they don't have confidence. You know, uncertainty. So the government can do better to mitigate some of the uncertainties.

**Robin Hu 16:24**

I see. Well, Fred, I'm going to continue with you. The tariffs war is raging, but China seems rather unfazed by it all. Very cool. At least on the surface. So in light of the escalating tariffs and the hard decoupling that is taking place now, how would you describe China's psyche and posture in the current circumstances, and what implication do you see this being had on foreign capital owners, on their level of confidence in Chinese assets?

**Fred Hu 16:55**

I'm not sure if China is unfazed by it. Everyone else in this room, and globally, China is very concerned about the tariff wars, you know. But from China's perspective, the initial response, right? You know, China failed, almost, you know, no chance, but taking a very forceful stand, pushing back, right, and by imposing its own retaliatory tariffs, you know, out of maybe principle, but also kind of dignity, okay? But it's important to keep in mind, just because China has taken an initial, defiant stance doesn't mean China has given up diplomacy altogether. I believe China is very open and stands ready to have talks when the conditions are right. So because the tit-for-tat confrontation

clearly, is lose-lose situation. The stakes are very high. As the current secretary, you know, Scott Bessett, says this is 145 percent US tariffs and 125 percent you know, tariffs from China, which is simply unsustainable. The longer it takes for this trade tension to last, the more economic harm is going to do to both sides. What have you on inflation, on consumer spending, on businesses, supply chain disruption—on both sides. So I think it's imperative, eventually the two governments would have to come to the negotiating table. And of course, if they can manage it—there's no guarantee— but if they can manage to end this nasty, bruising, costly tariffs fight through negotiation, that would be, I think it's positive for investors sentiments. It will provide huge sigh of relief to the financial markets. And it will put some more certainty, assurance for long term investors in China, here, here in the US, and I think globally.

**Robin Hu 19:32**

Well, there are a number of opportunities for the two gentlemen to meet in later parts of this year, and APAC and other occasions as well. Do you see that there are certain conditions as—right? You mentioned that it is very important to start negotiating, to have contact and so on. Obviously, we know that there's very little contact, and certainly we don't think that negotiation is really taking place. At least not seriously. Do you think the conditions are not right?

**Fred Hu 20:00**

So I think, you know, I can think of a variety of plausible scenarios or conditions under which the two governments will meet and discuss tariffs, right? But the first, I think, the most important, is really, in a way, still in the early days, right? So the financial markets are by nature, react more strongly when it is early, right? So, as we have seen the market volatility and the particular reaction to the government bond market led to kind of relief or pause, right? In terms of reciprocal tariff, at least temporarily, right? That's a good example. As I mentioned earlier, as time goes by, the real economic cost of such a high tariff, okay, will become more evident. And the pain felt by ordinary consumers and by small businesses in particular were also more keenly felt every day. So that in turn, would generate substantially higher social and political pressure, prompting the two governments coming to the negotiation table sooner rather than later. So that's first on the real cost. Because people now, I think are complacent and think, you know, there's no real damage done, right? But you know, wait one quarter, two quarters, you know, you'll see the cost will escalate much higher than they are today. So secondly, I also think that there are maybe some narrow issues, for example, fentanyl, right? If US China can manage to forge agreement on fentanyl, that may provide a kind of off-ramp to de-escalate and to set the conditions for tough talks. And then also don't forget there's some other non-trade, necessary non-trade issues, you know, where if China can play constructive, helpful role, for example, in the Russian-Ukraine conflict, or maybe the Middle East conflict. That, again may be helpful. You know, creating kind of a, consider to be more positive climate for hard-nosed trade negotiations. So there definitely are catalysts. There are conditions, and I think just given that the stake so high, I actually think China has every reason to look for the first available window of opportunity to settle the nasty trade dispute.

**Robin Hu 23:21**

What might be the first opportune moment for that?

**Fred Hu 23:26**

Well, you know. So that include maybe the two leaders if they reach out to each other directly, you know that could really, really provide necessary impetus, right? So you know, trade negotiation is tough, I think, you know, in the early era, maybe when Bob was in the government, the Chinese will find it very easy to to feel comfortable. You know, trust enough to talk to each other, right? Right now, I didn't think there's enough relationship, you know, at the captain level and other technocratic level. You need to, like really, the two presidents, engage with each other directly. You know, not necessarily the nitty gritty of the discussion, but to set the framework. Maybe kind of the contour of what a treaty deal look like, and there may be some of the most critical conditions, right? So, so right, I think would be very helpful.

**Robin Hu 24:30**

Alright, Kevin?

**Kevin Lu 24:31**

Yeah I would simply say that I think the largest two economies today in the world have had a mutually beneficial economic relationship for over four decades now, right? So, so that relationship has to land somewhere. We all know that, but I think it's not going to land at the current level of tariff. I think everybody today, we have a de facto embargo on many sectors, right? So they you cannot, I cannot imagine a world where the number one, the number two, economy embargo each other. That's for whose benefits, right? So it's gonna land somewhere. It's not gonna land what it has today. It will probably not land back to last year, right? So it's somewhere in the middle and the— I think the problem of the financial markets is that the financial markets essentially net present value things based on linear extrapolation, right? And here we're not in a linear world. This is a holding pattern for whatever we're going to land so I think, as an investor, we just have to recognize number one, this is a holding pattern. It's not going to be there. You should not linearly extrapolate based on what happen today, and then use your wisdom to think about where the landing point would be, that would be my most philosophical comment on this.

**Robin Hu 25:44**

Okay, now the next question you won't be so philosophical. Well, the Swiss-owned Partners Group that you represent in responsible for whole of Asia, is Europe's largest private equity firm, and given the capital decoupling that is already taking place and probably going to be even more so. How is the Partners Group recalibrating its global investment strategy to ensure that European capital remains competitively poised and deployed and not structurally sidelined.



**Kevin Lu 26:19**

Okay, I will first say that I think my Swiss co-founders may be unhappy for me to say this on the record, but we're a global firm. So the facts that we do, the facts that we're headquartered in Switzerland, is wonderful. I think that give us the a lot of the DNA of the firm, but we're a global firm, right? So today, we're global firm. If you look at how we have invested over the last couple of decades, that we have invested in a very balanced way, probably 40-45 percent in the US, similar amount to Europe, and then a smaller percentage for the rest of the world. For us as a global investor, I think we do have a luxury or privilege that we look at the world in what we call a relative value framework, right? For one particular sector, one particular stop sector, as the global investor, we could decide at any point of time where to deploy our capital based on that relative value, right? That's my first point. My second quick point is that, you know, our capital base comes from over 900 institutional LPs, right? They are everywhere. So this is not—we are not dependent on one or two investors who may or may not be more exposed to geopolitical sentiments than others, right? When you have 900 institutions backing us and a much larger number, obviously, on the private wealth side, so we have a fairly balanced capital, capital base, and maybe the optimistic side, I would say when—again— we as investor, when we see inefficiencies like what we see today, right? This is probably the most inefficient time I have seen in the last decades, in terms of things getting politicized, and there are different views, and bidders and sellers don't agree on a price, right? And you know this is, this is almost opportunity for us, right? Because we trade on long term judgment and we take advantage of inefficiencies. When you live in a completely globalized, efficient world, everybody agrees on everything. There is no opportunity for us to bring return to our LPs.

**Robin Hu 28:24**

Right well, Kevin, you mentioned about inefficiencies in the system and that represent opportunities, right? Give us a couple of examples. And how does, how does the Partner Group exploit the arbitrage of inefficiencies for better returns?

**Kevin Lu 28:36**

Yeah I mean, I probably can't go to too much details, but I would say...

**Robin Hu 28:41**

Hypothetical examples, yeah?

**Kevin Lu 28:42**

Yeah. I would say, Let's say for example, right? If you—you know— one of the one of the markets we're very active in is called— this is technical—is the private equity secondaries, right? So we GPs trade LPs stakes. And hypothetically, if you have an LP who wanted to sell their GP stake—the LP stake in a particular fund for non-

commercial reasons, right? That just happens all the time and that creates that room for us to value something maybe a little bit higher than what the seller wants to sell. Then that creates an opportunity for that inefficiency, that different views on the valuation of the same asset. In this case, it's LP stake, right? So things like this happen all the time. I'm not saying the current geopolitics is the only reason for inefficiency, right? There's a lot of inefficiency in the world. I'm just saying this is one more source of inefficiency. And as a private market investor, inefficiency is usually good for return.

**Robin Hu 28:42**

Well, you're absolutely right. I mean when I was working for Temasek. I mean, about nine years ago, when we started out, we used to joke that 70 percent of our time was spending chasing transactions, and by the time I retired, 70 percent of the time we're trying to chase geopolitics. So in a multivariate equation, that politics is not even a variable, it's a coefficient. Secretary let me go to you before Zhang Lu.

**Robert Rubin 30:02**

I'll be very brief. I've been involved in this stuff for almost 60 years, including running Goldman Sachs and running the Treasury Department. I think I disagree with you slightly on the inefficiency point, because the question of inefficiency is relative to uncertainty. And it is true that secondaries—I actually think secondaries are an interesting area—but it may be that the inefficiencies seem like inefficiencies really are not, but a reflection of just a massive uncertainty and risk. And that particularly relates to the relationship between China and the United States, and also to the issues we have in the United States today. One of America's foremost historians said to me, she thought this was the greatest threat to our Republic—what's going on right now. The greatest threat to our republic since its founding, except for the Civil War and a lot of that related to the rule of law. I don't—This is— I'm just now repeating, then I'll keep quiet. I'm only repeating what happened yesterday. The President went on one of the—not yesterday, Sunday. On Sunday shows, and he was asked, "Do you believe you're bound by the Constitution?" He said, "I don't know." Well, that should be a relatively troubling comment to anybody who thinks about the rule of law and its importance to the function of any economy. By the way, I think China has some big rule of law questions too.

**Robin Hu 31:09**

Thank you, sir. Zhang Lu?

**Lu Zhang 31:10**

No, I just want to, want to add on what Kevin mentioned. I think for us as a private sector investor, the benefit of us doing investment is a long term. So we're not looking at the next two or three years on what happened in the market. We're looking at the next five to seven years. Then when we're looking back, you know, there's more uncertainty. They bring lots of anxiety to the market. When there are anxiety in the market, people are willing to

make changes. When they're making changes, they're welcome to embed new innovation technology. So from our perspective, looking at this, all this uncertainty putting together is increasing the spending on the innovation AI, integration, digital transformation across the not only tech industry. Just want to add in a quick example.

**Robin Hu 31:48**

Sure, right. Does Fusion Fund deploy capital in China as well?

**Lu Zhang 31:52**

No, we only invest in United States.

**Robin Hu 31:53**

Only in the US. Okay, right? So next time I'm gonna—Okay, my next question is on international capital, right? So how do you see international capital owners reshaping their investment strategy in Asia? Maybe not directly yourself, but maybe that your peers, you know, the others, that may be running a more international fund in nature? If not, Kevin can certainly comment on that.

**Lu Zhang 32:11**

Yeah.

**Robin Hu 32:12**

So how do you go about, you know, developing and reshaping your investment strategy in Asia, particularly in Asia and maybe in maybe India as well, right? Given the geopolitical, climate regulatory shifts and push for localization by Chinese companies, and maybe by extension to that in India. Also, do you want to comment on that? Or? Kevin?

**Kevin Lu 32:32**

Yeah, I'm happy to start and for our firm right Asia, we've been investing Asia for over two decades, and the key markets like Australia, India, China, we have all had very good experience, right? The way we handle those markets is that, is that is to, is to is to try to focus on domestic, sort of oriented companies, right? So I'll give you a live example. I think last week we got approval for IPO, of one of our portfolio companies in China. It is called Green Tea. This is a fine, casual, fine dining Chinese food chain about close to 500 restaurants in China. If you look at

assets like this, the reason we're comfortable calling IPO is that it's really not affected by all those exciting things we have been talking about and debating about, right? This is to serve Chinese customers, which are still in that process of urbanization, getting, getting they enjoy things.

**Robin Hu 33:30**

Consumption.

**Kevin Lu 33:30**

Yeah. So I would say India as well has treated us very well, these three markets and then Asia has also newer markets that are exciting. Japan, for example, we have been observing that for many years. So therefore, the long the short answer is that we focus on each market by itself, right? We don't necessarily assume huge premium based on globalization, because these are the assumptions today that are being challenged.

**Robin Hu 33:58**

Sorry, go ahead,

**Lu Zhang 33:59**

Yeah, I can add into that, although we don't, we only deploy capital in North America. But, you know, look at a Silicon Valley in general. You know, now 60 percent of the unicorn company in Silicon Valley are immigrant founder. They have immigrant founder.

**Robin Hu 34:01**

60 percent.

**Lu Zhang 34:06**

60 percent. More than half. And Silicon Valley have 40 percent of local resident, or people like me, first generation immigrant. And also, same thing when we look at a company are doing AI innovation, and across the board, they all have a strong global, global perspective. So that's one data I really want to share. Another thing is, when we are chatting with our LP. Our LP are large institutional including some sovereign wealth fund. They also are talking with us about opportunity in different market. You mentioned about Japan, Korea, you mentioned about India. India is talking about, we have this interesting discussion in Davos earlier this year about they realize, okay, AI may

bring lots of changes, lots of disruption for the existing IT industry. What is the future, next generation supply chain due to the geopolitical issue, can they potentially work along that getting like 10, 20 percent opportunity? And the Japan talk about. Robotics innovation, because they have robotics on the foundation. How to adding AI edge computing to make it smart robots. And the Korea people didn't know Korea have such a huge number of highly educated engineers, that's all the opportunity. Opportunity for capital deployment, another opportunity. Why go back to early on. Mentioned about the background of all this founder, they're a global perspective founder. They're also thinking about leveraged global talent. They're also thinking about leverage global market after they start with the US market as one of probably the best market to initial commercialization. Especially focus on B-to-B market here. But go beyond there. Not only some of their customers that they are working with are global exposure already. They also are thinking about being able to leverage different ecosystem to access to better data. We talk a lot about AI. Essentially, the core of AI for next stage of innovation is the quality of the data, quality of the data, one thing, diversity of the data, another thing, and also AI regulation. All three things could benefit from the global collaboration.

**Robin Hu 36:02**

Exactly. We'll come back to that again. Actually, you mentioned about this ChatGPT, the number one most profitable market is Korea.

**Lu Zhang 36:12**

Most of the user who pay.

**Robin Hu 36:14**

Yes, that's right, they pay.

**Lu Zhang 36:15**

I'm not sure whether this can be publicly shared.

**Robin Hu 36:19**

It's a very well known fact, and the use case in Korea is the most varied and the most advanced. But anyway that's—

**Fred Hu 36:26**

Well that's because it's not accessible in China, right? So China has also proven, you know, through the age of mobile internet, Chinese consumers they really like app, product technology. They're willing to pay as well. That's why all these great companies, not only big, but also they are extremely profitable, right? ByteDance, Alibaba, Tencent and the like. But just you know this again, related to the broader converse of geopolitics in the background. So OpenAI, you know, GPT-4 is not available, you know, to Chinese consumers. So, but in the case of China, specifically, you know, outside the US, you know, China is the next biggest, most vibrant tech ecosystem, okay, including AI. So I would say, in terms of investment opportunities, you know, what type of inefficiency. But I would say, you know, we are like growth oriented investors, right? We're looking for new champions that could actually, you know, create enormous, the exciting technologies, disruptive technologies, but also really create a lot of value for shareholders, for society at large, right? So US, you know, arguably, is still single biggest pool of opportunities. But I would say China is right behind the US as the next biggest, most vibrant, exciting opportunities.

**Robin Hu 36:45**

Right. So (China) still very investable. On the subject of AI, right? Do you? Do you foresee that the world of AI will be a hot, decoupled world? In other words, there is a US led AI world, and it's a Chinese led AI world, much like what I'm doing today. I gotta use WeChat to communicate with any friends, any colleagues in China, I have to use WhatsApp, Facebook to connect with any of my colleagues and friends in the US, but they— never the twain shall meet. I can't send any document from one to the other without me manually trying to figure out a roundabout way of doing that, which is absolutely, you know, it drives me to nuts, right? So, so for people like me and others who need to travel to two sets of the world and to communicate with two sets of friends and colleagues, it's just not very pleasant. And I can foresee that in the AI world, we will be exactly the same. And I'm optimistic or being practical here? Lu, you go ahead.

**Lu Zhang 39:00**

Okay, I can share. I think there are lots of discussion about Deep Seek earlier this year. You know, I got many people calling me like, what is happening after public market react to it. But I do want to use Deep Seek as a perfect example to show in that even there are lots of geopolitical issue, tech innovation, the community be able to find a way to work together. So Deep Seek is actually an open source project, as you guys—

**Robin Hu 39:21**

Well, WeChat and WhatsApp have not found a way to work together.

**Lu Zhang 39:25**

They are not. But for Deep Seek, the reason I want to use as an example, it actually built on top of the large model innovation in United States. Benefits from the existing open source ecosystem here, and they develop a new

architecture make it so neat and lower cost, and open source it. And that architecture got learned by the local innovator in Silicon Valley again, and now we'll be able to lower the cost of the AI infrastructure dramatically.

**Robin Hu 39:49**

So to my question, what are you going to see? Is it going to be one world or two worlds?

**Lu Zhang 39:53**

I think for the tech innovation, I think we're going to have two system, but I think it will be one AI world.

**Robin Hu 39:58**

Okay, great. Right taking a position. Secretary?

**Robert Rubin 40:01**

I think you're raising a very fundamental question, Robin. I think there's— Just my impression. I think this impression is probably right—Is just massive distrust in both countries in respect to each other. And as long as that distrust sustain, I don't see how the kind of optimal world that you just described, Robin or hope for is going to happen. And I think right now—we had somebody at the Council of Foreign Relations, the other day, a former, highly, very senior official in the prior administration, who said, "How is United States going to have a more effective role with China, work relationship with China, if we don't know whether the Chinese government wants to focus only on its internal stability, which is fine, or wants to be hegemonic?" Now conversely, if I were Chinese, I would say, "Well, how do we have a relationship with the United States, if we don't know whether you're willing to cooperate with us, or just want to contain us?" And the question is, how do we get pass all this? And I think particularly with this administration, about the United States, which seems to have a very strong, aside from the trade issues, just a very strong animus against China. And the politics of the United States, or China, as you know, are very bad. I think we're stuck where we are, Robin for quite a long period of time.

**Fred Hu 41:09**

Yeah, I do, I do agree. Bob, like, you know, lack of strategic trust between two countries is a huge roadblock for a better world. You know, when AI become real, like a mass adoption by, you know, companies, consumers, society at large. But—and conversely, I think, is also imperative, just given how important AGI is. Reminding me of the nuclear atomic weapon. Robert Oppenheimer is the father of first atomic weapon, where, soon after Manhattan Project, he campaigned for increased global dialog cooperation and the safeguards to ensure atomic energy a lot of times in the early days, only for peaceful use, not to as destruction of humanity as a whole. I do think AGI has tremendous benefits, societal and economic benefits for the whole world, but there's also lot of unknown dangers,

maybe even existential threat to humanity. So I just think despite all the differences or the lack of trust, it is essential for Beijing and Washington to also really sit down obviously not just China and the US, but also Europe and other stakeholders, international community, find a way to have truly global AI governance and safety standards. This is not the US standard, not Chinese standard, but really global standards, so that we can ensure maximum benefits but the minimum risks of the AI revolution.

**Robin Hu 43:10**

Well put and Secretary is going to disagree with you? Secretary?

**Robert Rubin 43:12**

No, I totally agree with— my question to Fred—by the way, if you all haven't read it yet, the book that Eric Schmidt and Henry Kissinger wrote about AI—it's worth reading not because of its AI, but because the ramifications precisely what you mentioned, Fred. There are many positives, but there are also many dangers.

**Lu Zhang 43:13**

Exactly.

**Robert Rubin 43:14**

But my question to you, Fred would be—agreeing with you that it's imperative for the two countries to come together around AI and nuclear weaponry, at the very least, and climate change, I might add, which would destroy life on Earth as we know it, and so not irrelevant. How would you how do we get from here to there?

**Fred Hu 43:45**

So it's good question, right? I do think you know, outside of Washington-Beijing, the private sector, you know, you need to find a way to work together. So either, you know, preserve the essential global trade despite the threat of tariff. Make sure you know, Bob, why you know economic history, since first Industrial Revolution. You know economic possibility and the trade always go hand in hand. Why that's for Europe, for North America and for East Asia. No single exception, successfully industrialized economy you know, could turn its back against the trade, right? But then, you know, technology and you know, so I think private sector, they need to really make sure we have normal health trade, not disrupted by politics or geopolitics. And then, you know, in terms of technology collaboration, I think Lu mentioned, it's an ambient—like a symbiotic ecosystem, right? Silicon Valley—60 percent immigrant founders. That means some of them came from India, from China, right? You know, from Israel, from all over the world. That's how you know, that's the single biggest strength of America. Right? attracting immigrants. And then you know, so then you know, like, what we've seen in mobile internet era. You know, there's some



Chinese technology apps can inspire the best you know, founders in the US to incorporate some of the you know, features, right? And vice versa. So I think, you know, human being will be more productive if we have, you know, open, collaborative mindset. So I think, you know private sector can do better than academia, probably everyone agrees, right? So not now, even University collaboration on nowadays, you know all the cutting edge papers in science, you know literature, you know there's no single it's always like a team. And you see maybe half American, half Chinese,

**Robin Hu 44:53**

Yeah.

**Lu Zhang 45:39**

Yup Yup.

**Fred Hu 45:39**

Okay, more often than not, but now, with the current policy, that's been under threat, right? So we also need to make sure university in terms of students, in terms of collaborative research on climate, on, you know, next drug for cancer or dementia or Alzheimer that we, you know, bring the scientist engineers working together to solve some of the toughest problems for the world. So I think keep doing this. Then when the political conditions stabilize, improve. Then I think we can target this other, you know, AI, governance and other stuff.

**Robin Hu 46:17**

Okay, I'm gonna stop on the subject of AI, now, I'm sorry the time is running out, and so too is the battery of this pack here. But I do have a question from the audience, which I am obliged to actually ask. Question is, is China truly committed to climate change solutions? How would you respond to skeptics that point to the continued significant growth in coal-fired power? Does anybody?

**Fred Hu 46:40**

I want to do this. I'm on the nature group board and co-Chairman of Asia-Pacific region. So I have, early on, you know, kind of been writing and speaking about the importance of China, you know, to have the early transition, because China, kind of, like the previous industrial nations did to fossil energy. In the case of China it is really coal, and coal is extremely polluting and the carbon emitting culprit. So yes, China still will probably be the fossil energy consumer, coal, oil and gas. But China is also the single biggest investor in renewable energy. Okay? Wind, solar, and others, even fusion technology. So actually, every year the incremental capital investment and R&D, you know, in capacity gigawatt installation in renewable, China is bigger than the next big economy, next 10 big economies

combined, including US, Japan, and other bigger energy consumers. So yes, it's a long way to go, but so far, China is definitely very committed, not just by rhetoric, but by putting the money where mouth is. And actually spending the money. And so and you know in terms of transportation, EV mobility and others, I have seen more and more examples. China has been coming the furthest along in energy transition.

**Robin Hu 48:21**

So Fred, are you or Kevin, investing in green technology and energy transition in China at all?

**Fred Hu 48:27**

The answer is yes.

**Kevin Lu 48:31**

Globally, in a very substantial manner, our infrastructure—China, we are, we are looking at projects as well? Okay, let me just add one point on what Fred mentioned? I think, I think on the on the topic of green economy, sustainability, I think the key to not live with all these contradictions, as Fred mentioned, China is, on the one hand, both at the forefront of the green economy as well, as you know, there are certain issues from legacy—Is not to look at as a moral dimension primarily, right? This is, this is economic driver. People in China, as well as anywhere else, want to breathe clean air, right? They, as their living standard improves, they want to enjoy greenery. So if you look at from an economic driver perspective, it's very easy to reconcile what China is doing, but if you look at it as a moral high ground, then you find contradictions in China, like coal fire, and EVs.

**Robin Hu 49:26**

Right, great. Next question is coming from the audience as well. What is the most important thing the Chinese government should focus to spur domestic consumption? Secretary, you want to give it a shot?

**Robert Rubin 49:39**

Well, I told you what I thought, yeah, more secure social safety nets, particularly for retirement, around an analog to Social Security and Medicare. And I think I don't know if this is right or not, but that was what Larry and I said to Zhu Rongji a long time ago, if you had a really robust credit card system, that might be helpful, right?

**Fred Hu 49:58**

Yeah, I agree with that. But that's you know—a different type— You know, if China is seeing really pro growth, okay, pro jobs, pro private sector, then consumer confidence will improve and they can be willing to spend, right? You just see when last couple years where there's pandemic or regulation on tech, on real estate, you know, the general stance towards the private sector, had a chilling impact on the public, on the mass sentiments, so they're very cautious. So as long as there's clarity, there's a certainty, and the stability in the Chinese context, I believe Chinese consumers are very willing to spend, and actually is the vast potential spending power of Chinese middle class, which will be the most crucial engine of growth. So in the current trade war, climate, I think that's most effective defense and offense.

**Robin Hu 51:10**

Alright, so invest in Chinese consumption. Kevin, do you wanna?

**Kevin Lu 51:14**

Yeah, I would. Great questions, very hard to answer, but I'll give you an obvious and a non-obvious answer from my side each in 30 seconds. I think the obvious answer is that there are many cultural reasons, such as, Chinese people like to save or spend, we don't want to borrow. That's going to take a long time. Right? Social safety net, the confidence. I think there's a whole basket of topics that are very obvious. It has been there for decades. There's no magic bullet here. The non-obvious answer I would give is the following, which may be controversial. I do think the East Asian culture, including the Chinese culture, is a more collective culture than what we see in the West? Right? They— therefore, if you agree with that hypothesis, then I don't see any choice for the Chinese government to go with a slightly more collective route, such as what they're doing today, which is to encourage everybody to replace their elevators, and then the government would have a collective scheme to subsidize that. Right? That would be very controversial here, right? That would be individual choice. But in China, if you go to those old buildings now, five, six floors in the past, there was no elevator. Right now, the government said, if you— if the building choose to do those things, we will collectively subsidize, not only elevator, like refrigerator, all the appliances. I just think you have to accept the fact that it's a little bit more collective. Therefore the response has to be a little bit more collective. I'm not diminishing individual choices, yeah.

**Lu Zhang 52:36**

But I think also there's a generation changes as well. For example, for my generation when we grew up, I think the world is in a perfect globalization period. And also I think that the consumer behavior is also huge impact by that. Then, then you look at how fast China adopt all this, like digital payment process, and also all this like a new behavior from the younger generation. So I think things are shifting very fast.

**Robin Hu 52:58**

Excellent, yeah, because people— especially for foreigners going into China, I now can use DiDi. I can pay with WeChat and with a foreign Credit Card. In the past, I couldn't do that, so COVID has done something for us. Thank you. I'm going to just round up the discussion with one final question for everybody, and that is, is China an accidental threat or legitimate part of the changing world order? Right? So as we know that, right? I mean, China's global influence is growing very significantly in ways that will cause the liberal democracies some angst, so the US and its allies will hate to determine whether China, that is a softer incarnation of its current self, should be regarded as a legitimate part of a changing global order, or should it still be treated as an existential threat? I'm going to just go in this order, starting with you Fred.

**Fred Hu 53:46**

Well, the rise of China definitely pose certain challenges in certain dimensions, just given the sheer size, scale, and speed of change. So it's kind of disruptive in terms of the existing order, the stability, the certainty. But you know, net, net, China rise is also a tremendous opportunity, as you know, for many, many years already, you know, China has demonstrated. China can, you know, take up with the US as the two most crucial engines of global economic growth, and as a trade nation, and now increasing as a big source of FDI into especially Global South, right? So China really has a role to play to ensure global economic possibility, and also now with the AI and other, you know, China become a technology powerhouse. So more and more technologies will be invented, and that also will diffuse into many of the trading partners, especially in Global South. So net, net, I think, you know, it's a blessing. It is a positive rather than a negative.

**Lu Zhang 55:03**

Yeah. So I think, of course, there's a way you look at it from a perspective as a government and policy maker, but there's also, for example, from us, we're innovator. We're doing innovation. Competition is always better for innovation. More competition bring better innovation, and also bring much bigger productivity improvement. And another thing, just as Fred mentioned early on, I think we're in this exciting time that AI is evolving so fast, and people would always assume AI is only for consumer. No, the traditional IT enterprise, SaaS market is only less than 10 percent of US GDP, but now we're talking about AI for our service market, which essentially go over more than 50 percent of the US GDP, and broadly globally, I think no matter we like it or not, the two biggest economy has to work together, including what Fred mentioned about AI governance, that's the main issue. If we only look at consumer you may or may not care here about data privacy. But if you are talking about insurance industry, health-care industry, financial industry, we have to collaborate to have the right regulation in place. Another thing also you guys mentioned about the climate tech. But more important is energy consumption. One of the major challenge of AI right now is energy consumption. Before we run out the GPU, we're going to run out the energy and how to really be able to collaborate to produce more energy in the efficient way to make it possible for AGI. Even come to come to realization, it may not come if we don't have this fundamental infrastructure problem solved.

**Robin Hu 55:49**

Exactly. Gonna improve the power grid as well. Thank you, Kevin?

**Kevin Lu 56:26**

Yeah, maybe. Robin, your question of China's role in the world order, I would just say, you know, it's a country of 1.4 billion people. There's no way to keep a country of 1.4 billion out of the world order, no matter how hard you try and no matter how or who, who tries it. And secondly, I think if you look at the Chinese history for thousands of years, right? It's a it's a farming society. When you have a farming society, the focus is to care for your land, is to, is to, is to grow plants, rather than necessarily going out, expand, to intermediate, to play that role. So in fact, I think that's a problem. My interactions with Beijing is that too much focus—bandwidth—is focused on domestic issues. They sometimes forget that, as Chinese economy grow today compared to 30 years ago, it's such a center of gravity on a lot of things, they cannot ignore that spillover effect to other countries anymore. So I—my answer to you, is that it's the opposite to see China as the threat—I will say the opposite is that the Chinese need to think about there is consequences what they do domestically, internationally. They need to be careful with that, rather than the problem the US face, which is sometimes overly expansive with international affairs.

**Robin Hu 57:34**

Well, thank you. We start with Secretary Rubin, we end with Secretary Rubin.

**Robert Rubin 57:39**

Okay, okay,

**Kevin Lu 57:41**

And we're now on the record. Secretary.

**Robert Rubin 57:43**

I thought we're on the record. I already said too much. Anyway, no, I agree with you. What you just said. I do think China—this is my view for whatever it's worth—I think China needs to be cognizant of the ramifications outside of China, of what it does. But I'm gonna repeat something I said before, and I repeated myself, I know, but I think firstly, we have the Trump problem and the animus he has toward China. But let's get past that for the moment. There is a real problem, which is, how do we view —Henry Kissinger used to say— I knew Henry pretty well. Henry Kissinger used— in fact, quite well— Henry Kissinger used to say that China really focuses on his internal stability, not on being hedging, not on being a hegemon. But unfortunately, the perspective of the United States is the opposite now. That there's a focus on being hegemonic, at least in the region and maybe internationally. I don't know what the realities are of Xi Jinping and of the Chinese government, but it seems to me, if that's not where they are, then they should make it clear it's not where they are. Conversely, the perspective of the United States is

a position where it wants to contain China. That's probably in response a little bit to what I've just said. But China, United States, has to, in my opinion, turn it—not be in that posture, not try to contain China, but try to work with China. But how do you—but I'll say, repeat what I said before you have these two areas, there's enormous distrust in both countries based on the things I've just said, how do we get past that? And Hank Paulson, as I said, had a piece in The Washington Post yesterday or today, whenever it was, I don't know, with a plan that seemed to me make a certain amount of sense, but whatever the answer may be, Fred, it goes back something you said before. It's imperative they work together. But how do we get from where we are to where we need to be?

**Lu Zhang 59:19**

Yeah.

**Robin Hu 59:19**

Thank you. Well, on that note, the time is up. Thank you.

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