

From: Devon Archer [REDACTED]
Subject: Re: Meeting with Chinese Ambassador
Date: January 27, 2014 at 8:25 PM
To: James Bulger [REDACTED]
Cc: Hunter Biden [REDACTED]



We're providing notes to the Embassy now on meeting purpose. Katie's submitted to Chinese Ambassador, awaiting feedback and confirm if timing is possible.

Devon Archer
[REDACTED]

On Jan 28, 2014, at 3:37 AM, James Bulger <[REDACTED]>

Gents

Please read the document Lenny sent me today, you will find it below. A US Embassy staffer met with the former CEO of the Bohai Fund in 2008 and wrote up a report on the meeting. Me and Lin know Au pretty good he was the first Bohai CEO and he hired Jonathan as the two of them go way back. Pretty interesting that someone at the Embassy in Beijing would be interested in what the domestic Bohai PE Fund was up to. Thought you guys should see this

On another note Lenny has reached out to someone over in Beijing to ascertain Jonathans flight schedule. I still believe a meeting early next week with the Ambassador if possible would be best, hope this has not caused to much of an ass ache.

Thanks
Jimmy

----- Forwarded message -----

From: Michael Leonard <[REDACTED]>
Date: Monday, January 27, 2014
Subject: Meeting with Chinese Ambassador
To: Jim Bulger <[REDACTED]>

Jim,

I was thinking about the logic of having you, Devon, Jonathan and Hunter meet with the Chinese ambassador in DC to talk about the fund and I was reminded of a leaked confidential diplomatic cable that I've read which I have copy and pasted below (link can also be found [here](#)).

In 2008 our foreign service personnel met with the then current CEO of Bohai Group- Au Wei- who as you may recall you have had a long relationship with. He explained to the US foreign service professionals what the Bohai Fund's advantages in the domestic market were and what it's goals would be. It looked like it was a very frank discussion and the contents of their discussion was included in this cable.

Not of much consequence but I wanted to highlight the fact that it is common for our embassies to discuss matters like this.

Regards,
Mike

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E.O. 12958: DECL: 01/16/2018
TAGS: CH ECON EFIN ENIV ETRD PGOV SOCI

SUBJECT: BOHAI FUND TO TAKE ADVANTAGE OF HOME-GROWN STATUS

REF: A. BEIJING 7356

1B. BEIJING 614
1C. BEIJING 3078

Classified By: Ambassador Clark T. Randt for Reasons 1.4(b/d).

Summary

11. (SBU) The establishment of the new renminbi (RMB) 20 billion (USD 2.7 billion) Tianjin-based Bohai Industrial Investment Fund, the first of a series of home-grown RMB-denominated private equity (PE) funds backed by state-owned entities, represents an effort by Chinese authorities to expand non-bank financing options for domestic firms. The fund is supported by central and local government investors, but operates commercially as a PE firm that invests solely in domestic entities. Established in late December 2006, the Bohai Fund completed its initial round of investments in the manufacturing and banking sectors in October and November of 2007. Bohai Fund CEO Au Wei told us the fund's operations will be completely commercially driven, though the fund will maintain close ties to Tianjin local authorities and the NDRC -- the lead agency tasked with establishing China's PE regulatory framework. The fund enjoys several advantages over foreign PE firms, including its RMB-denominated status, close relationships with regulators, and its freedom to invest in sectors that are restricted for foreign investors. Au said that foreign PE firms face more restrictions in China, but he expects their opportunities to grow along with Chinese firms' demand for direct financing. End Summary.

Home-grown private equity

12. (SBU) The Tianjin-based Bohai Industrial Investment Fund (Bohai Fund), the first RMB-denominated PE fund of its kind in China, represents Chinese regulators' efforts to expand direct financing mechanisms for indigenous firms through the establishment of a home-grown PE industry. By encouraging firms to take advantage of new financing options such as PE, Chinese authorities aim to spare state-owned banks from too much exposure to market risks.

13. (SBU) Established in December 2006, the Bohai Fund operates as a limited partnership. It distinguishes itself from foreign PE firms by limiting its investments to mainland Chinese enterprises and by using only RMB capital. In addition, it receives its funding only from state-owned enterprises (SOEs) and government agencies, including China Life Insurance, China Development Bank, China's State Social Security Fund, China Postal Savings Bank, and Tianjin TEDA Investment Holdings.

14. (C) The Bohai Fund is the first fund of its kind to receive the approval of the State Council and serves as a pilot project on which future industrial investment funds will be modeled. Similar industrial investment funds are currently under interagency review including the Guangdong Nuclear Fund, the Shanghai Financial Fund, and the Shanxi Energy Fund. In a January 11 meeting at the fund's headquarters in Tianjin, Bohai Fund CEO Au Wei told us the NDRC plans to approve at least RMB 100 billion (USD 14 billion) in industrial investment funding each year over the next several years to help address the growing direct financing needs of Chinese firms. Domestic industrial investment funds like Bohai will provide financing opportunities to enterprises without subjecting them to capital control related restrictions.

Economic interests will drive decision-making

15. (C) The Bohai Fund is based in the port city of Tianjin and counts local government investors among its limited

and courts local government investors among its limited partners. Over the past several months, China-based analysts have called attention to the relationship between local authorities and the new industrial investment funds, noting the possibility that such funds could become financing vehicles for local governments. Rumors have hinted at tensions between the Bohai Fund and local authorities over the fund's investment in a Chengdu bank.

¶16. (C) CEO Au -- who formerly worked as a private equity manager for a U.S. firm in Hong Kong -- objected to such characterizations, stating that the Bohai Fund's name gives a false impression that the fund will only invest in the Bohai

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region. (Note: The fund's name refers to the Bohai Sea, the innermost gulf of the Yellow Sea, which includes the port of Tianjin and borders the Liaoning and Shandong Peninsulas. End Note.) "The Bohai Fund's foremost concern is making profits," Au explained, likening the fund's goals to those of any international PE firm. He stated, however, that the fund's investors' expectations are slightly lower than he experienced as a PE fund manager in Hong Kong. While Bohai's investors would be happy to achieve 20 percent returns, he claimed, he and his staff will aim for 30 percent returns over a 15 year time frame.

...But fund will retain close ties to government

¶17. (C) Although the Bohai Fund operates as a purely commercially-driven entity, the fund's management maintains a cooperative relationship with local authorities and central government regulatory agencies, in particular NDRC. According to Au, the fund has been well supported by Tianjin authorities, especially Vice Mayor Cui and Mayor Dai Xianglong. (Comment: Reftel B discusses Tianjin's efforts to develop the Bohai Rim Economic Circle (BREC) and establish the region as northeast China's financial center. Mayor Dai, as former Governor of the People's Bank of China, played a major role in obtaining the Central Government's permission to establish pilot finance projects in the region. End Comment.) "Tianjin wants to make itself the Delaware of China," Au said, though he expressed reservations about the plausibility of such plans noting the important role that relatively autonomous state governments play in attracting investment in the U.S.

¶18. (C) At the central government level, Au explained, NDRC -- in particular Director General of the Fiscal and Finance Bureau and former Humphrey Fellow, Xu Lin -- is taking the lead in coordinating the PE regulatory environment. (Note: See Reftel C for further discussion of Xu Lin's generally progressive attitude toward financial liberalization. End Note.) Au said NDRC has helped facilitate a constructive dialogue between the Bohai Fund and government regulators. Under an NDRC mandate, the Bohai Fund employs a team of several supervisors assigned to Bohai Fund headquarters from NDRC. These supervisors provide advice and assistance to the fund's management, although the fund is under no obligation to follow the supervisors' advice, Au explained.

¶19. (C) Au told us the NDRC is now finalizing rules and regulations governing PE, likely to be promulgated in February 2008. The Bohai Fund, as China's primary pilot industrial investment fund, has played an active role in advising NDRC and other agencies on the draft regulations. Au predicted that PE will be a regulated industry in China long into the future, though he expects that the new regulations will not make the PE deal process in China any more difficult than it is in other markets, including the U.S. (Note: According to Au, investments totaling more than RMB 5 million or involving government entities will require government approval, while smaller deals will likely close without much government intervention. End Note.)

¶10. (C) In Au's view, although the government has "not too short a way to go" toward establishing an efficient PE regulatory regime, the NDRC's commitment to change is "genuine." Au has been impressed by the speed at which the central and local government agencies have responded to the development of the PE industry. However, he noted that due to the nascent regulatory environment, he spends nearly 50 percent of his time as CEO handling political issues.

Fund will target areas off-limits to foreigners

¶11. (C) Capitalizing on its unique position as a private equity firm funded by government and state-owned entities, Au said the Bohai Fund will take full advantage of opportunities to invest in sectors that restrict foreign investment, including banking and defense. The RMB 20 billion fund has almost completed its first RMB 6 billion in investments. In October 2007 it took a 20 percent stake in Tianjin Pipe and in November 2007, the fund purchased a 10 percent stake in Chengdu City Commercial Bank Co. Au said he expects to further diversify the fund's investments in 2008. Potential investments could include media, new energy industries, finance, consumer goods, and agriculture.

¶12. (C) Au explained that the fund will focus its investments in industries that demonstrate strong potential for eventual

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listing on a domestic stock exchange. The fund does not plan to go after distressed assets. In contrast to foreign PE firms, Au explained, the fund will aim for minority shareholder positions in most of its deals, and will add value to its assets through efforts to improve corporate governance in advance of initial public offerings.

Implications for foreign private equity firms

¶13. (C) Au acknowledged that foreign PE firms face their own set of unique challenges in China. Over the past three years, foreign PE investors have made a tremendous amount of money in the Chinese market. This has generated resentment among some Chinese, who question whether so many domestic assets should be turned over to foreign control, he explained. In addition, he said, the country's surplus foreign exchange reserves have created many hurdles to foreign investors who attempt to bring more dollars into the market. Finally, as detailed in the annual investment catalog, China continues to prohibit or restrict foreign investment in certain sectors. These factors, combined with the growth in the number of PE firms competing for a small number of deals, make China a challenging environment for many foreign PE investors.

¶14. (C) That said, Au stated that as the demand for innovative forms of direct financing grows, so will the opportunities for foreign PE investors in China. Au envisions opportunities to work in conjunction with foreign PE firms on deals in the future and has already held discussions with some firms about prospects for such investments. While foreign firms bring experience and broad portfolios, the Bohai Fund has earned the trust of the Chinese Government and could share its local expertise in joint deals with foreign firms, he explained.

Comment

¶15. (C) The Bohai Fund and other new industrial investment funds will be inclined to use their status as RMB-denominated, state-backed funds to focus their investments in sectors that are off-limits to foreign PE investors. If that is the case, Bohai and its domestic counterparts will be less likely to emerge as major competitors to foreign PE firms in the Chinese market. However, by providing this new form of financing to domestic firms in sectors for which foreign investment is restricted, the Chinese Government has created a disincentive to the

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further opening of restricted sectors, as doing so could
reduce investment opportunities for emerging domestic
industrial development funds like Bohai. End Comment.
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