Turning China's promise into cash

Western VCs will have to learn some new skills to succeed in the Middle Kingdom, not least the art of cooperation, writes a Focus Ventures partner

As I look back on the highlights of 2003, Focus Ventures' Asia Forum in Shanghai still stands out. Three things came out of that 2-day seminar in October and they're worth recording here. First, the Chinese market holds even more promise than many western attendees probably realized. Second, for private venture-backed companies, making good on the vast opportunity will require a high degree of cooperation between American and Asian entrepreneurs and VCs. And third, for VCs and entrepreneurs in the West, success in China as elsewhere will require mastering a new skill: optimizing the global, disaggregated business models that so many start-ups now employ.

The conference brought together leading technology professionals, entrepreneurs, and Asian scholars from eight countries. Among the speakers were Zhou Guangzhao, Chairman of China's Association for Science and Technology; Lawrence Lau, Professor of Economics at Stanford and Vice-Chancellor Designate of The Chinese University of Hong Kong; China scholar Robert Temple; and James Ding, Chairman of AsiaInfo.

Checking alignment

The meeting helped align perceptions with realities on one central point. Contrary to perceptions in the West, China has already largely made the transition to a free market economy. The private sector now accounts for 65% of GDP and an even greater share of employment. The capitalist spirit has clearly taken hold – virtually every executive we met spoke enthusiastically about making profits and taking his company public.

China's central government is an aggressive proponent of the free market economy, and continues to enact policy to make it easier to do business in China. The government continues to press ahead with plans to privatize state enterprises, providing exciting near-term private equity investment opportunities.

Making the most of China's enormous opportunity will require VCs from the West to work closely with their Asian counterparts. Through improved communication and collaboration, we can help each other reduce development costs and time, employ the best technology platforms, ramp revenues faster, and achieve better customer diversification.

We can also learn from each other as we wrestle with one of the biggest business challenges of this young century: building disaggregated startups with operations on two, three, or even four continents. Focus Ventures has built an extensive network of Asian contacts, investors, and entrepreneurs and frequently leverages this network to help its domestic portfolio companies make inroads into Asia. Now, as the Asian VC market takes off, we are in a position to return the favor. All the participants at our conference walked away with a newfound commitment to improving the level and quality of cooperation, either formally or informally.

Exits are happening

Real hurdles *do* remain for those investing in China. Several speakers decried the shortage of exit mechanisms and the perceived overvaluation of China's Renminbi currency. But progress is being made, as we've seen with many Chinese companies successfully listing on the NASDAQ, Hong Kong and Singapore exchanges. And there is a growing consensus that the Renmimbi's "overvaluation" is more a product of political hype than economic reality. But as heartening as all this is, there is a more important point: even in the absence of a fully-liquid, Western-style financial infrastructure, the vast potential in China far outweighs the difficulties of doing business there.

As China's government has warmed to the idea of a free market economy, entrepreneurs and investors have shifted their focus from political risk to economic risk. Now it is up to the VCs, entrepreneurs, and investors on both sides of the water to convert the promise into a profitable reality. ❑

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