stars insights: 11 July 2019

“The Chinese Bubble in Artificial Intelligence is Insane”

*The AI industry in China is booming and many Chinese AI companies are strongly overvalued. In this stars interview, **HUANG Yuanpu**, CEO and Founder of EqualOcean, a leading Chinese industrial tech media and investment research company, explains the insanity behind the bubble and why a cooling down of the bubble is overdue. While China still lags behind the US in terms of AI technology, Huang argues that China has more potential because it has more places to use technology and to experiment with innovations. With the competitive advantage of data on its side, he believes that China only needs a couple of years to become the leading country in AI.*

Renaud VUIGNIER: Investments in AI companies are on the rise, especially in China. Some observers see a risk of a bubble waiting to burst. What is your view on the current situation and the coming years?
HUANG Yuanpu: AI companies in China have USD 1 billion revenue but USD 5 billion valuation. I think there is a bubble and I even consider it as insane. In China there are performance-driven companies with core technology and knowledge that reach a high level and can now compete with their counterparts in the United States. But their valuation is much larger than in the United States. This is not right. It is a risky bet based on too optimistic future developments. In the past 20 years China has been developing very fast. For a long time, the GDP growth rate was around 9%. Everyone is very optimistic about what technology can bring for further economic development. But right now, China’s GDP is 6.4% this year, which is low in comparison with the past. Moreover, the macroeconomy is slowing down. Therefore, I think that the logic behind our development is changing. The “Chinese story” is changing. We often have the assumption that China is developing fast and will continue to do so thanks to its huge market. However, if you look at the statistics, now it is slowing down. 1.4 billion customers represent of course a huge market, but is it still big enough for giants like Alibaba or Tencent? I would argue that it is not, especially if you compare with Amazon or Facebook for example. They have access to the 350 million US consumers, but also to consumers from all over the world. China itself is not enough anymore for tech companies, especially in the field of AI.

Who will lose if the AI bubble blows up?
I think it would actually be a good thing if the bubble stops. Chinese unicorns will not go bankrupt because they are too big, and they have support from the government. Having said that, I do think Chinese AI companies should quickly become more rational to seek new rounds of investments. They need to lower their valuation in a realistic way. The current situation is weird and cannot go on. Chinese AI companies have a much higher valuation, even higher than when they entered the market. If you look at Uber, the stock price is going down. This is not because investors don't believe in Uber's sharing economy model and it doesn't mean investors cannot make profits, but it means it is less profitable than in the early stages, which is just normal.

Many places around the world compete to become global AI hubs. In China, this is the case for Beijing, Shanghai and Shenzhen. Is China well positioned in the global competition around AI hubs?
I think that most of the technologies originate from Silicon Valley and the most famous scientists are based in the United States. China still lags behind the United States in terms of AI technology, but China has more potential, more places to use technology and to experiment with innovations. I understand that a government-driven system is not always optimal, but in China the government pushes the development of AI and that is a key advantage. In the United States you have strong rules regarding data and privacy. In China, we are more pragmatic, technology can be applied and tested more easily and data can be used to improve technology. From the industrial point of view, China only needs a couple of years to be the leading country regarding AI, thanks to quick improvements. It echoes what happened with the internet. At the beginning, China was lagging behind, but after 5 years, from 2013, you see Chinese unicorns among the world top unicorns, such as Didi Chuxing, Xiami, Lufax, Meituan-Dianping. For the future, data represents a key asset. In this regard, China has a clear competitive advantage.

Alibaba, Huawei, Tencent are Chinese success stories. They show how innovative China has become. At the same time, question marks remain regarding their links with the government. How do you assess the situation and how will it evolve? Do you see a new Chinese path for global innovative companies?
If you invite CEOs of big innovative companies, such as Apple, Facebook or Amazon, to take part in a conference, they can talk and discuss various issues and more or less do what they want. In China, it doesn't work like this. We don't have so many of this kind of talks and officials can make the life of businessmen more difficult. However, if you compare the current situation with the past, the evolution is impressive. Traditional companies needed to take great care of their relations with officials from all levels. Now, in the new era, it doesn't happen anymore. Companies can do what they want if they obey the government policies. And I do think government officials have a very open mind about tech companies. They want to let them go global, and even help them. For example, Jack Ma represents the new generation of entrepreneurs that have some kind of connection with the government, but they have much more freedom to do what they want to do in comparison with the past and with other types of companies. For example, there are many state-owned enterprises (SOE) in China. Those are large and belong to the government. They are different from innovative companies such as Alibaba and Tencent. Tech companies are market-driven and have more freedom. If they serve the users, they have significant room to manoeuvre. I am very optimistic about future evolution, because there is a relation between businesspeople and the government, but it is not a strong one and it is transparent and clean. If what the companies require is reasonable and the rules are respected, the government is willing to support the companies. The Chinese central

government wants the AI technology sector to succeed. To do so, it knows it needs transparent and effective processes. The challenge is to improve the efficiency of the whole government, including at local levels. We already see changes in this direction. And technology actually contributes to this shift, with a digitalization, for example via WeChat, of visa delivery and several administrative processes.

What is the added value of EqualOcean and who do you work with?
Our clients are investors, venture capitalists (VC) and companies mainly based in China. In the last five years, we acquired five major VC investors among our partners. With a team of more than 100 journalists and analysts, we focus on reporting and researching for our clients. We write more than 100 new articles every day and we have published over 100 reports about industrial intelligence in various domains, from high tech sectors to retail and health care. Some of our reports are directly sponsored by big companies. Moreover, we carry out consulting mandates. Traditional companies that want to upgrade their business model come to us. We connect the most innovative companies with the most traditional ones. On the one hand, traditional companies have the money, but they don't know how to use technology. On the other hand, innovative companies have valuation, but they don't know how to make profits. Introducing technology into traditional companies and supporting innovative companies to make profits, that is our value added as the platform in the middle.

HUANG Yuanpu is the Founder and CEO of EqualOcean, a leading Chinese industrial tech media and investment research company. Founded in February 2014, with headquarters in Beijing and branches in Shanghai and Shenzhen, EqualOcean supports Chinese tech companies to break into the global market and provides overseas investors, VCs, and enterprises with a deeper understanding of China's business environment. Huang previously worked for Chinese tech giants like Tencent and Meituan and as an internet industry analyst at iResearch. He graduated from China Foreign Affairs University with a master's degree in International Relations.

The interview was conducted on the sidelines of the stars China symposium 2019 by Dr. Renaud VUIGNIER of foraus (Swiss Forum on Foreign Policy). The views expressed here are solely those of the interviewee and they do not necessarily represent or reflect the views of the stars Foundation.

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