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Executive Changes: New Goldman Sachs Head Is Like Bull in China Shop; After Paulson, can Blankfein establish Asian ties?

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Near the end of the second-quarter earnings call with analysts, Goldman Sachs CFO David Viniar finally got to the question on everyone's mind: When could analysts talk to newly named CEO and chairman Lloyd Blankfein? "I'm not sure what you mean by that," Viniar answered, feigning some surprise that new leadership at the financial titan with $10 billion in quarterly revenue merits curiosity. Viniar would only assure that no one would "see any changes in strategy at Goldman Sachs."

Given that Goldman these days depends more on derivatives and hedge funds than corporate finance, the appointment of a maverick trade-side executive to carry on the playbook of starched-shirt stalwart Henry Paulson can't be at all that shocking. But there are questions about how the new Goldman team under Blankfein will foment a centerpiece of Paulson's legacy to Goldman and the arena of its fastest-growing non-U.S. business: China. Paulson, the newly sworn in Secretary of the Treasury, made more than 70 trips to China in 16 years at Goldman, building ties with key government and industry officials to seed a head start that saw his firm take the lead in investment banking in Asia, advising on more than $23 billion worth of M&A and IPO activity.

To the relationship-centered culture of Chinese business, Paulson's handshakes and personal connections were as crucial as Goldman's access to capital. Given the importance of ties in China, does Paulson's absence and the ascent of the internationally greener Blankfein mean trouble for Goldman's interests, particularly at a pivotal time to steward China's state-run companies into public markets? "I would tend to think that Goldman will lose a little ground in the Far East," says Richard X. Bove, an analyst for Punk, Ziegel & Co. "I would assume there is going to be a shift, and it's not going to be a positive one."

Usha C.V. Haley, a professor at the **University of New Haven** School of Business in Connecticut and author of The Chinese Tao of Business, says, "In the Chinese system, contacts are not transferable. It depends on how long Paulson has been cultivating relationships in China." Goldman Sachs officials did not return calls for comment.

The shift at Goldman comes as China is moving gingerly into opening its financial markets to foreign banks, as required under its terms of entry into the World Trade Organization, and as it tries to build participation in its Shanghai and Shenzhen exchanges. But IPO and M&A activity will be the main target for global investment firms battling to land lucrative deals, despite lukewarm 2005 activity in China; PricewaterhouseCoopers reported a 21 percent drop in M&A activity in that country. Problems with transparency for China's big 4 banks also remains problematic.

The recent Bank of China IPO, which included Goldman among its sponsors, brought in $9.7 billion its first day-the largest global IPO in six years. The reason for investor interest, says Chris Gentle, director of Deloitte Research, is that "there is nothing else like China, and there will never be anything like China again in terms of actually the way [deals] change the global economy and the way it'll change financial markets in terms of the potential size of these companies and how many of them come to market."

Goldman remains the leading investment bank in Asia, with more than $205 million in revenue in the first half of 2006, aided greatly by the marketwide $506 million in investment-banking fees, a 60 percent jump, in China, according to Dealogic. But the bank was dealt a setback in May, when it lost out for the Industrial & Commercial Bank of China IPO to a consortium of five firms (including Merrill Lynch, Credit Suisse and Deutsche Bank), despite holding a seven percent stake. That could portend stiffer competition for Goldman as China perfects the game of pitting investment banks against each other.

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