

Beat: News

Trump's Scrutiny Increase Sees Chinese Money Vanish From Silicon Valley Startups

Chinese investment in the Silicon Valley

Palo Alto, 09.01.2019, 10:22 Time

USPA NEWS - There has been a halt in Chinese investments in U.S. technology start-ups with both investors and startup founders are scrapping deals amid because of scrutiny from Washington heightened by the policies of the new Trump administration aimed at reducing access to the US market for China.

According to New York economic research firm Rhodium Group, last year, the amount of Chinese venture funding in U.S. startups was \$3 billion which was a record. The investments were driven by the urgency of investors and tech companies to get through with deals before the approval of a new regulatory regime in August.

And since that time, there has been a very steep decline in venture funding in US startups by Chinese investors according to news agency Reuters after it conducted in-depth interviews with 35 industry players.

The US government granted itself greater powers for blocking foreign investment in U.S. companies according to the new legislation signed by U.S. President Donald Trump. This was applicable to all in foreign investments coming from all countries. However preventing Chinese investments from getting its hands on strategic U.S. technologies has been the announced focus of Trump of this legislation.

The fallout of the new legislation has been swift even though tech industry veterans said that the new rules are still being finalized.

"Deals involving Chinese companies and Chinese buyers and Chinese investors have virtually stopped," said attorney Nell O'Donnell. He has represented U.S. tech companies in negotiations with foreign investors.

In order to ensure investments get the stamp of approval from Washington, deal terms are being feverishly rewritten by lawyers so that the deals get the green signal from the Trump administration, reported Reuters. Transactions have been cancelled and negotiations with US start-ups have been stopped by Chinese investors, including big family offices. On the other hand, there are some entrepreneurs that are trying to avoid Chinese investment because of the fear that such investments would mean very lengthy reviews by the government which could draw on their resources and momentum, both of which are very critical elements in the startup industry.

For example, Chinese investment was declined last year by a San Francisco-based company Volley Labs, Inc which makes corporate training materials with the help artificial intelligence. The company had earlier accepted Chinese money in a funding round in 2017 from Beijing-based TAL Education Group.

"We decided for optical reasons it just wouldn't make sense to expose ourselves further to investors coming from a country where there is now so much by way of trade tensions and IP tensions," said Carson Kahn, Volley's CEO told Reuters.

Reuters also quoted an unnamed Silicon Valley venture capitalist who claimed that he had confirmed information about at least ten deals that were cancelled because such deals would require approval from an interagency group in the US known as the Committee on Foreign Investment in the United States.

However, the slowdown of Chinese investment is unlikely to result in catastrophic consequences for Silicon Valley because, according to data provider PitchBook Inc, in the first three quarters of last year, there were investments of more than \$84 billion into U.S. startups from investors worldwide which was more than full-year funding earlier.

(Source:www.reuters.com)

Article online:

<https://www.uspa24.com/bericht-14799/trumps-scrutiny-increase-sees-chinese-money-vanish-from-silicon-valley-startups.html>

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V.i.S.d.P. & Sect. 6 MDSStV (German Interstate Media Services Agreement): Jacob Harris

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Official Federal Reg. No. 7442619