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How China Is Buying Up the West's High-Tech Sector

Chinese acquisitions of Western firms are only part of the problem. Secret venture capital is handing power to Beijing under the radar.

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Over the last few years, Western governments and parliaments have ramped up efforts to try to limit the opportunities for companies from certain countries (read: China) to buy up their most innovative firms. The United Kingdom is strengthening its laws curtailing foreign acquisitions, as is Sweden. France, Germany, and Italy have already done so. In October this year, the European Union's foreign direct investment screening mechanism became fully operational. But such laws against foreign purchases of Western firms may come too late. China taps into start-ups long before they're mature enough to be acquired.

To be sure, the new laws are important. In Sweden, for example, between 2014 and 2019, Chinese buyers acquired 51 Swedish firms and bought minority stakes in 14 additional ones. The acquisitions also included some 100 subsidiaries. Most worrisome, in 2018, Chinese outfits—two of them linked to the military—bought three cutting-edge Swedish semiconductor start-ups. In 2017, Imagination—a top British chipmaker—was acquired by a firm owned by a state-controlled Chinese investment outfit. Before that, a Chinese firm bought the leading German industrial robot-maker, Kuka.

But acquisitions are only one part of Chinese involvement in Western countries' most innovative firms. At the Cambridge Science Park, which is owned by the University of Cambridge and home to some 120 cutting-edge tech firms, the United Kingdom's first private 5G network is about to be launched. The two firms behind the network are Cambridge-based Cambridge Wireless and Huawei, the Chinese telecommunications giant. Despite being banned by the British government from providing equipment for the country's 5G network, the firm is jointly building and deploying the 5G network. In a statement last month, Simon Mead, Cambridge Wireless's CEO, said in a statement, "We invite ambitious businesses to get involved and through this exciting 3-year partnership with Huawei, we will support their 5G innovation journey."

Considering the phenomenal concentration of tech innovation taking place at Cambridge Science Park, and the fact that the British government has excluded Huawei from national public 5G efforts over security concerns, it's odd that the private 5G network is going ahead. But since the network is private, it's not illegal.

Huawei is far from the only Chinese entity tapping into the advanced tech being developed in Cambridge. Perhaps even more worrisome are the Chinese venture-capital firms energetically scouting out the best ideas. Huawei, for example, works with TusPark UK—the British branch of Tsinghua University's globe-spanning Science Park network—to "accelerate the digitalisation of The Cambridge Science Park and enable businesses to exploit new capabilities, boost innovation and gain competitive advantage as they shift towards the adoption of 5G."

At events in Cambridge and Oxford, the U.K.'s other tech innovation hub, start-ups are regularly invited to pitch their ideas to Chinese venture-capital firms. A recent pitch session was combined with a conference that featured a talk from the master of a Cambridge college and other sessions on "Cambridge and the Silk Road" and "The Cambridge Cluster and China Opportunities." As Wei Meng, a Tsinghua graduate with a Ph.D. from Cambridge who is TusPark UK's head of innovation, told a local newspaper reporting on the event, "Chinese investors and market are more ready than ever before to work with U.K. businesses. Innovative approaches of collaboration are invented more frequently." Meanwhile, material for an upcoming pitching session advises start-ups wishing to apply for meetings with venture-capital firms that "the Chinese investors are particularly interested in talking to emerging BioTech, IoT, AI and AgriTech companies." The first three—biotechnology, the Internet of Things, and artificial intelligence—are part of China's Made in China 2025 strategy for economic superpower status.

The situation is similar in Silicon Valley. Puhua Capital, one of the Chinese investment firms most active in the United Kingdom (among its investments are the medical technology firms Perspectum and Congenica) is also a major funder of start-ups in the Californian high-tech scene. Danhua Capital, a Palo Alto-based venture-capital firm backed by the Chinese government, has dozens of U.S. start-ups in its portfolio. According to a 2018 report by the Office of the U.S. Trade Representative, by Nov. 15 that year, 151 venture-capital investments into U.S. start-ups had featured at least one Chinese investor, up from fewer than 20 in 2010. Los Altos-based TSVC, formerly known as TEEC (Tsinghua Entrepreneur & Executive Club), which was jointly launched by the municipal government of Shenzhen and Tsinghua University, has invested in nearly 200 tech start-ups.

But public investments by Chinese venture-capital groups in Western companies are only the visible tip of an iceberg. Chinese entities also invest in Western start-ups through Western firms, in which they participate as limited partners. Those limited partnerships allow the Chinese entities to get access to the technology in which they invest without having their names touted anywhere in the process. They may not get full say in the form of any given technology, as would be the case if they publicly acquired a company, but the access to the firm and a say in its strategy—especially at the early venture-capital stage—is highly attractive.

Here's the challenge for Western governments: Because these firms are not obliged to disclose their limited partners, nobody knows how many Western start-ups have received Chinese venture-capital funding—much less what those start-ups are. Even more worrisome is the fact that the limited partners may well be connected to the Chinese government. According to a 2018 Reuters investigation, no fewer than 20 Silicon Valley venture-capital firms have Chinese limited partners linked to Chinese government entities.

Limited-partner funding may, in fact, be booming well beyond what Reuters has established. The United States' Foreign Investment Risk Review Modernization Act, passed two years ago, makes it much more difficult for Chinese venture-capital firms to invest in cutting-edge tech—but it doesn't apply to limited partners. As Sabrina Yuan and Art Dicker, a Silicon Valley-based entrepreneur and an investor, respectively, noted in an article last year, the best option for Chinese-backed funds "is to essentially not be Chinese." Under the new law, they explained, "even if 100% of the limited partner investors in a fund are Chinese, if the general partners of the fund are US citizens and fully empowered with discretion to make all investment decisions on their own, the fund is considered a US fund.