

China needs new plan for Silicon Valley partnerships

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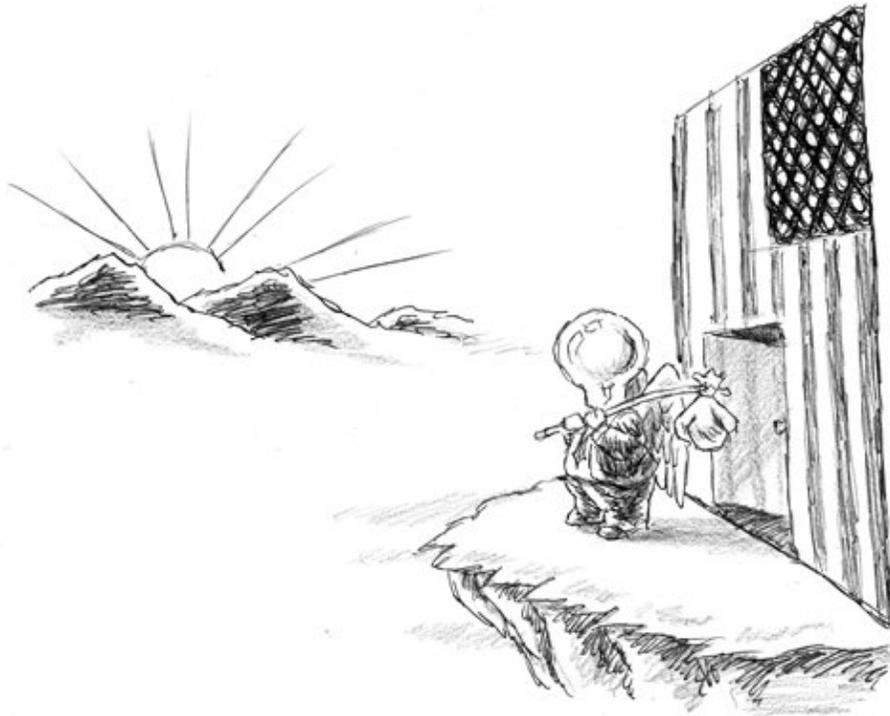


Illustration: Peter C. Espina/GT

The once-sizzling romance between China and Silicon Valley has cooled rather dramatically. This has some potentially serious consequences for both sides, but especially for China, which desires to invest in and gain access to some of the hottest new ideas from this cradle of innovation. A new strategy is needed.

Until recently, Chinese investment funds and companies were investing hundreds of millions of dollars every year into promising Silicon Valley start-ups, as part of a strategy to forge closer ties between the US high-technology sector and the large Chinese market. But the flow of funds has largely dried up.

There are two main reasons. First, Chinese regulators imposed new restrictions on large overseas investments. Second, the US government began to take a less friendly attitude toward Chinese technology investment in the US, killing several proposed deals and holding up approval on many others.

There is every sign that things in the US are going to get more restrictive rather than less. As someone convinced of mutual benefits from Chinese investment in US technology, it all seems highly counterproductive. The world needs more deep and extensive ties between the Chinese and the US high-technology world, not just in start-up investing but also in university research and scientific conferences, shared research and development (R&D) labs, and partnerships among large companies

working in hot fields like semiconductors, robotics, artificial intelligence and clean energy.

What can China do? Rather than sending money out, it can encourage more US high-technology start-ups to relocate to China. There is a huge amount to be gained, both for China's continuing industrial upgrading and for innovative US technology companies looking to grow into giants.

China has in abundance the most vital ingredients for technology start-up success: capital, a market and talented managers and engineers. In many industries, for example advanced manufacturing, robotics and new battery technologies, China often has more to offer technology companies than the US.

China already has lured a lot of Chinese-born scientists and technologists back from Silicon Valley to open start-ups. The next step is to lure some of the best early-stage US technology companies to China. This addresses a big weakness in the US high-technology scene: companies there tend to view the China market as an after-thought. In reality, it is often the market most worth prioritizing.

I'm seeing how well all this can work on the ground. We're helping a promising US robotics company build its future in China. It is establishing a Chinese company as its main asset and moving some of its core team to China. It expects to add many more staff in China. The breakthrough product it's now perfecting has a huge potential market in China's manufacturing industry.

Originally, this company was aiming to find investors in China to help it grow in Ohio. We helped explain why bringing the company to China would make a lot more sense. The company is applying for R&D grants as well as venture capital in China. Within a 100-kilometer radius of its future base in Shenzhen, South China's Guangdong Province is the largest concentration of potential customers and partners in the world.

We foresee big mutual gains if China can attract many more exciting early-stage technology companies. They will create jobs, pay taxes and invest in local R&D. The benefits to China should be far larger than just buying some shares in a technology company based in Silicon Valley.

The objective isn't to evade US rules but to bring start-ups early in their growth stage to the market where the demand is greatest. Technology companies do best when they sit close to the biggest concentration of customers.

The Chinese government has already said it wants to make the country more of a magnet for global technology talent. Shenzhen is a great city for US start-ups to grow big.

The steep drop in Chinese investment in Silicon Valley may actually prove a blessing in disguise. It's smart to keep more of that capital at home to invest in great technology companies in China. Many US technology start-ups will achieve far more, and far more quickly, if they make China their future home.

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