S&P Global
Market Intelligence

Private equity investment in China in 5-year decline

Global private equity and venture capital investment in mainland China was $68.80 billion in 2023, the lowest in five years, while the number of deals decreased for the second consecutive year, according to S&P Global Market Intelligence data.

Contributing to the global decline is the pullback of US private capital, which was $7.25 billion in 2023, the lowest total value since 2019.

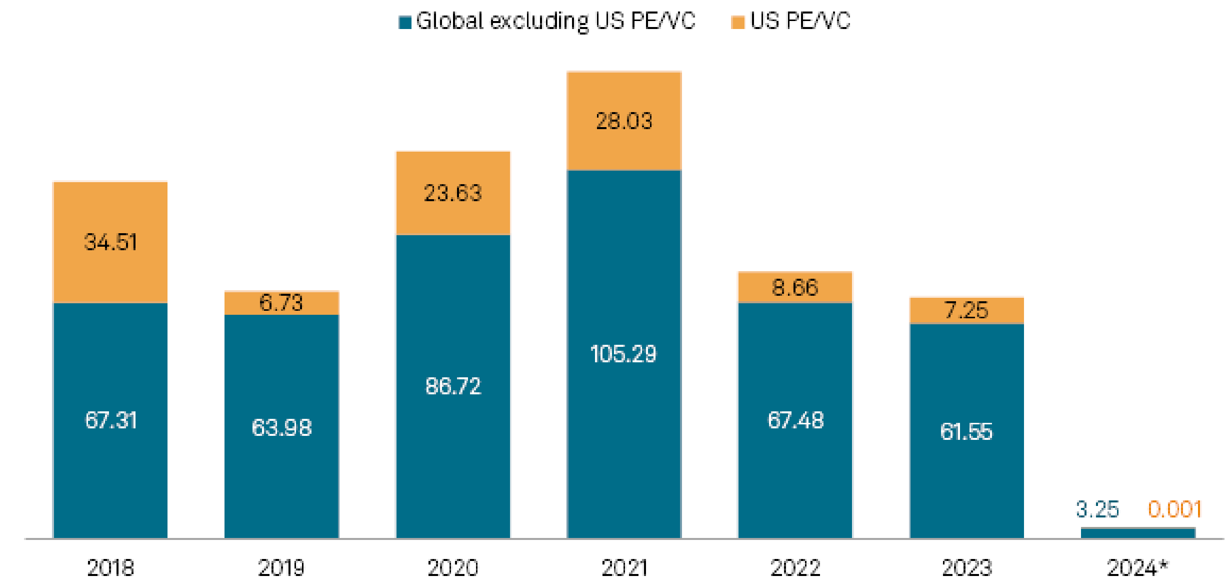
The numbers reflect the dramatic drop in investor sentiment toward mainland China, represented in a December 2023 survey report by Probitas Partners LP.

In 2024, only 3% of institutional investors surveyed considered China to be one of the most attractive Asian markets compared to 58% in 2021.

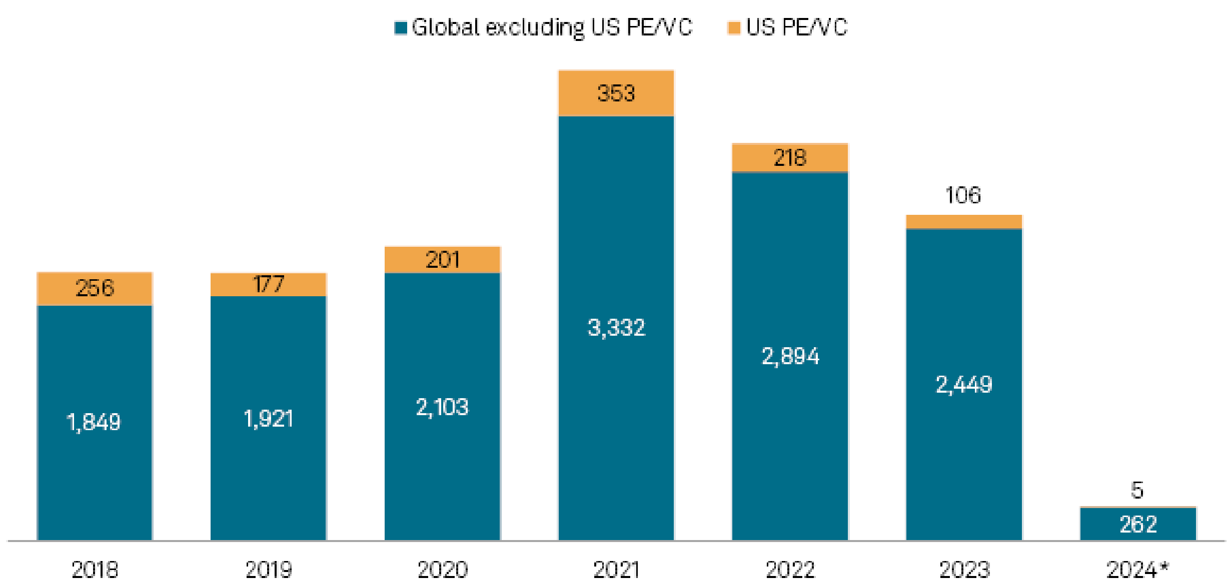
"The fall in interest has been dramatic over the past three years, with no sign of reversing," the report said, citing US and China political tensions, concerns about China's economy and regulatory actions by both countries.

Global and US PE/VC investments in China, 2018-2024

By aggregate transaction value ($B)



By number of deals (actual)



Data compiled Feb. 7, 2024.

PE/VC = private equity or venture capital.

* Year to date through Jan. 31, 2024.

Analysis includes global whole-company acquisitions, minority stake acquisitions, asset acquisitions, and rounds of funding announced between Jan. 1, 2018, and Jan. 31, 2024, where the target is headquartered in China, and the buyer/investor is or includes a private equity or venture capital firm.

Analysis is limited to S&P Market Intelligence covered companies or assets.

Excludes terminated deals and debt funding rounds.

Source: S&P Global Market Intelligence.

Tech-driven restrictions

US government concerns over outbound technology investment, followed by last year's investment restrictions on AI, semiconductor and quantum computing companies in "countries of concern," appear to be impacting tech sector deals.

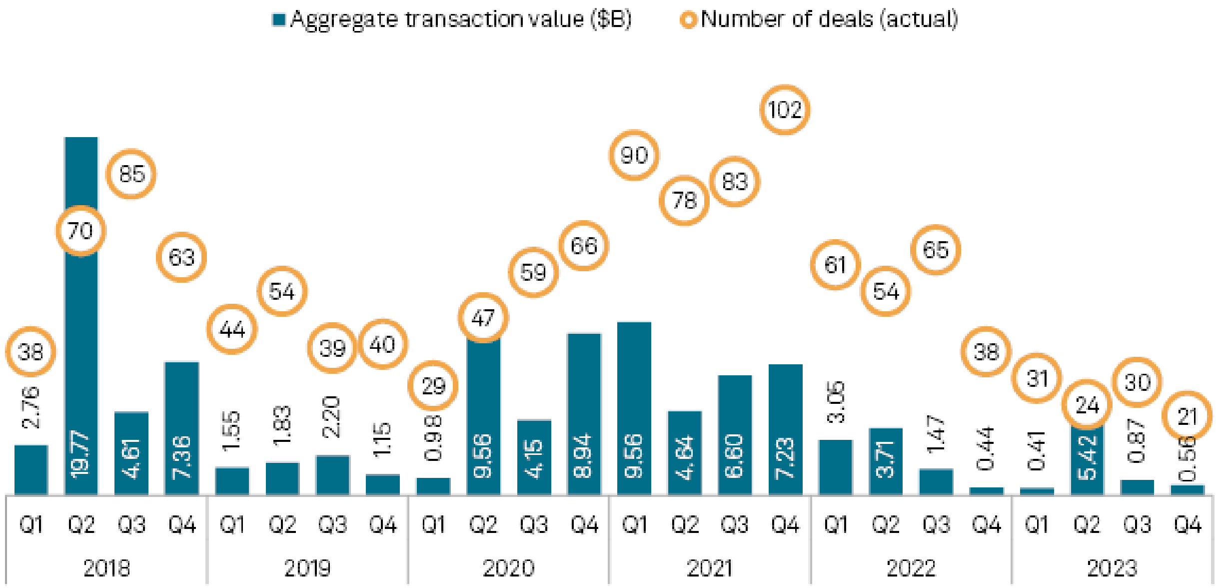
In 2021, global private equity or venture capital investments in mainland China's IT sector numbered 1,326. Last year, the number fell to 842, according to Market Intelligence data.

Government scrutiny heightened this year. In February, a US House Select Committee **investigation** named GGV Capital LLC, GSR Ventures Advisors LLC, Qualcomm Ventures LLC, Sequoia Capital Operations LLC and Walden International as five US venture capitals that have cumulatively invested at least $3 billion across China's AI and semiconductor companies that allegedly support military and human rights abuses. Last year, Sequoia and GGV announced they will split off their China operations into separate entities.

The House investigation will likely increase limited partners sensitivity to China-targeted investments.

"I think it will create a chilling effect, at least for the US funds," said Peter Lu, partner and global head of McDermott Will & Emery's China practice, who advises clients on cross-border M&A.

US PE/VC investments in China, 2018-2023



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Middle East investors

Alternative sources of capital are coming from the Middle East, according to Lu. He cited Saudi Arabia's Public Investment Fund deal this month to invest, through its gaming unit Savvy Games Group, in VSPO, a Chinese esports company. Also, Mubadala Investment Co. PJSC opened an office in Beijing, suggesting more investment activity.

China's local funds are also stepping up. Lu wrote a report that estimated Chinese city funds accounted for 63% of total Chinese private equity deal volume between 2016 and 2022.

“You'll see Chinese companies, especially state-owned companies playing a very big role, the so-called city funds. They are increasingly filling the gap," Lu wrote.

Mainland China-based private equity firms were the investors in the majority of the top 10 deals by value in 2023.

Largest global and US PE/VC investments through M&A and funding rounds, 2023

Target	Buyer/investors	Announcement date	Transaction value ($M)
Yangtze Memory Technologies Co. Ltd.	Hubei Province Changjiang Industry Investment Group Co. Ltd. Huaxin Investment Management Co. Ltd. China Integrated Circuit Industry Investment Fund Co. Ltd. Hubei Changsheng Technology Development Co. Ltd.	03/02/23	7,088.9
Changxin Xinqiao Storage Technology Co. Ltd.	Huaxin Investment Management Co. Ltd. National Integrated Circuit Industry Investment Fund Phase II Co. Ltd. Changxin Xinan Hefei Sineva Intelligent Machine Co. Ltd.	10/31/23	5,364.5
Chindata Group Holdings Ltd.	**Bain Capital Investors LLC**	06/07/23	3,160.0
Nanjing Xiyin E-Commerce Co. Ltd.	**General Atlantic Service Co. LP** Mamoura Diversified Global Holding PJSC HongShan Tiger Global Management LLC	05/18/23	2,000.0
Runpeng Semiconductor (Shenzhen) Co. Ltd.	Investor group[1]	08/16/23	1,726.8
China Resources Pharmaceutical Commercial Group Co. Ltd.	Investor group[2]	12/29/23	882.8
CCCC Urban Investment Holding Co. Ltd.	China Life Asset Management Co. Ltd. China Communications Construction Co. Ltd. ICBC Financial Asset Investment Co. Ltd.	06/17/23	822.3
Hollysys Automation Technologies Ltd.	Ascendent Capital Partners (Asia) Ltd.	12/11/23	800.8
ZEEKR Intelligent Technology Holding Ltd.	Contemporary Amperex Technology Co. Ltd. Yuexiu Industrial Fund Ningbo Tongshang Fund Management Co. Ltd. Quzhou State Owned Capital Xin'an Capital Management Co. Ltd. Quzhou Xin'an Intelligent Manufacturing Equity Investment Partnership Enterprise	02/12/23	750.0
Guangdong Wind Power Generation Co. Ltd.	BOC Financial Asset Investment Co. Ltd. CCB Financial Asset Investment Co. Ltd. Gongying Capital Management Co. Ltd. ABC Financial Asset Investment Co. Ltd. Beijing Chengtong Gongrong Equity Investment Fund (Ltd. Partnership) Three Gorges Capital Holdings Co. Ltd. BOCOM Financial Asset Investment Co. Ltd.	12/21/23	630.2

US PE/VC investor

Transaction sector Consumer Energy and utilities Healthcare Industrials TMT

Data compiled Feb. 7, 2024.

PE/VC = private equity or venture capital; TMT = technology, media & telecommunications.

[1] Includes Huaxin Investment Management Co. Ltd., Chengtong Fund Management Co. Ltd., National Integrated Circuit Industry Investment Fund Phase II Co. Ltd., Faw Equity Investment (Tianjin) Co. Ltd., Shenzhen Bao'an District Industry Investment Guidance Fund Co. Ltd., Qianhai Zhongchuan Equity Investment Fund Management Co. Ltd., CCB Fund Management Co. Ltd, Qianhai CSSC (Shenzhen) Smart Ocean Private Equity Fund Partnership Enterprise LP, CCB Pilot Strategic Emerging Industries Development Fund, Comprehensive Reform Experiment (Shenzhen) Equity Investment Fund Partnership LP, Industrial Finance Investment (Beijing) Emerging Industry Equity Investment Fund, Shenzhen Guidance Fund Investment Co. Ltd., Shenzhen Baoan Industrial Capital Operation Co. Ltd., Shenzhen Capital Group Co. Ltd., CCB Financial Asset Investment Co. Ltd., China Resources Microelectronics Ltd., Shenzhen Major Industry Investment Group Co. Ltd.and China Structural Reform Fund II.

[2] Includes BOC Financial Asset Investment Co. Ltd., BOCOM Financial Asset Investment Co. Ltd., Beijing PICC Healthcare and Pension Industry Investment Fund (LP), PICC Capital Equity Investment Co. Ltd., CCB Financial Asset Investment Co. Ltd., Beijing Pharmaceutical Group Co. Ltd., Beijing Guorui Zhongxin Equity Investment Fund (Ltd. Partnership), ICBC Financial Asset Investment Co. Ltd., China Resources Pharmaceutical Investment Co. Ltd., and ABC Financial Asset Investment Co. Ltd.

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Excludes terminated deals, debt funding rounds, and deals with unavailable transaction value.

Source: S&P Global Market Intelligence.

The flow of know-how

Capital alone is not enough. Private equity and venture capital investors can plug a startup into a global ecosystem of technology and business expertise as well as provide synergy with portfolio companies — key ingredients for developing into a leading edge player.

"Ultimately, China doesn't need our money," said a senior US administration official in August 2023 when tech restrictions were announced.

"They're a net capital exporter. So, the thing we're trying to prevent is not money going into China overall, because they have plenty of money," said the senior US administration official. "The thing they don't have is the know-how."