

# Four venture capital firms receive letters from China Select Committee

Last week, the Select Committee on the Chinese Communist Party sent letters to four venture capital firms that demanded information about the firms' investments in Chinese artificial intelligence, semiconductors, and quantum computing.

## WHAT HAPPENED

The House Select Committee on the Chinese Communist Party sent letters to four venture capital firms expressing "serious concern" about their investments in China.

As most Foreign Investment Watch readers know, the "China Select Committee," as it is colloquially known, is a bipartisan committee established in early 2023 to address the threat of China in the United States. The Committee has been quite active, holding multiple hearings this year on the China threat, the Uyghur genocide, and ongoing risks to U.S. businesses located both in the United States and in China.

According to Committee chair Rep. Michael Gallagher (R-Wisconsin), venture capitalists have invested millions into Chinese AI and semiconductor firms. That was validated by research we [recently covered](#) by the Center for Security and Emerging Technology at Georgetown University, which analyzed data on outgoing U.S. investment into Chinese artificial intelligence companies.

We noted at the time that the Georgetown research was among the first to calculate U.S. AI investment in China, and we stipulated that the report would likely impact regulators and legislators as they seek to understand the scope of U.S. investment in China.

Well, that didn't take long.

According to Rep. Gallaher, the China Select Committee needs to take a "hard look" at these VC investments because the Chinese Communist Party leverages private companies for military and surveillance purposes. "We're concerned that some of the investments by these funds into China-based companies may aid the CCP in modernizing its military, building its techno-totalitarian surveillance state, and perpetuating serious human rights abuses - including the ongoing genocide against the Uyghur people," Gallagher says.

Importantly, Gallagher believes this is just the start - not the end - of an ongoing probe into U.S. venture capital activity in China.

"This is the beginning of a broader investigation," he said.

Experts were not surprised by the announcement. "We've known for months that outbound investment in China was going to get scrutiny," said one member of the CFIUS bar who asked to remain anonymous due to his firm's relationship with one of the venture capital firms in question. "We're starting to see that now."

Louis Lehot, a partner at Foley & Lardner, agrees. "Unfortunately," he says, "one of the few things that both political parties agree on is restricting the flow of U.S. capital into China, and for anyone paying attention to this space, the investigations should not come as a surprise."

## THE FOUR FIRMS

The letters to the four firms highlighted concerns about their investments in AI, quantum computing, and semiconductors in China.

The four firms that received letters were:

- **GGV Capital** – Formerly known as Granite Global Ventures, GGV is a Menlo Park, California-based venture capital firm with an office in Shanghai. According to the CSET [report we covered](#) last month, GGV is "most active in financing Chinese AI companies." According to the China Select Committee's letter to the firm, GGV invested in Chinese AI company Megvii, "which actively supports the surveillance of Uyghurs." [Download the letter to GGV.](#)
- **GSR Ventures** – GSR is an early-stage venture capital firm based in Palo Alto. According to the CSET [report](#), GSR was "among the top U.S.-located investors in PRC artificial intelligence companies between 2015 and 2021." The China Select Committee wrote that many of GSR's transactions "not only help finance the development of technology that is directly contrary to U.S. national interests, but also risk transferring critical know-how and expertise from the U.S. to the PRC." That reference to "know-how" is not coincidental: As we reported [in June](#), the impending Executive Order on outbound investment is likely to focus on active investments and the "knowhow and expertise" in certain sectors of concern. [Download the letter to GSR.](#)
- **Qualcomm Ventures** – This is the corporate venture capital arm of \$44 billion semiconductor and telecom services firm Qualcomm. According to the China Select Committee, Qualcomm invested in Zongmu, a Chinese firm focused on self-driving vehicles that operates at an industrial park that lists as one of its focuses "promoting the development of military-civilian integration." [Download the letter to Qualcomm.](#)
- **Walden International** – Headquartered in San Francisco, Walden is a venture capital firm that is very active in China: At least 39 percent of Walden's AI investments were in Chinese companies. "Walden has invested in Intellifusion," wrote the China Select Committee, "an AI company that the Commerce Department placed on its Entity List for enabling PRC surveillance in Xinjiang." [Download the letter to Walden.](#)

## COMMITTEE DEMANDS

While each of the letters to the four firms is unique, the China Select Committee did make similar requests, such as:

- **Companies** – Provide a list of AI, quantum and semiconductor investments in China.
- **Transaction Details** – Provide detailed information for each investment. Interestingly, this didn't just include dollar amounts invested; it included "any business or management expertise or advice that Walden has provided," as well as information on the firm's investment decision.
- **Decision Making** – Provide details on internal policies and procedures related to how the firm decides whether to invest in a Chinese company.
- **Risk Factors** – Provide the risks the firm considered, including whether any personnel or outside consultants raised questions or concerns regarding national security risks.

## CONNECTION TO OUTBOUND

As noted above, the China Select Committee was particularly interested in the venture-capital firms' investments in AI, quantum computing, and semiconductors.

As most Foreign Investment Watch readers know, these are the exact technologies that are likely to be included in the impending [outbound](#) foreign investment review regime.

The letters also come right on the heels of [Sequoia Capital's](#) decision to spin out its Chinese unit into an independent company.

Legal advisors have been recommending that venture capital firms get ready for increased scrutiny. "We have been telling U.S. corporations, investment funds and other investing entities with significant operations or investments in China to prepare themselves for a news article, an investigation or new regulation," said Lehot at Foley.

To be prepared, Lehot said he is recommending that firms:

- Conduct a review of PRC assets and exposure to the PRC market;
- Identify higher risk positions in PRC businesses, "particularly those requiring U.S. capital or technology transfer, or with direct or indirect ties to the Chinese military"; and
- Conduct contingency planning for how to address the higher risk positions, and how to communicate about them.

That mimics the recommendations of advisors like H.K. Park of Martin+Crumpton, who stated back in September 2022 that VC firms and others may need to consider "[national security audits](#)" of their portfolios.

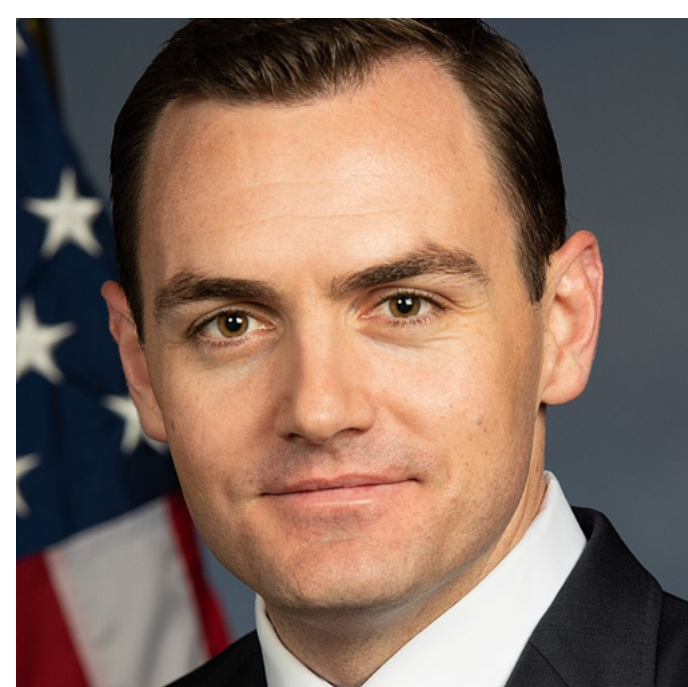
## MORE INFORMATION

The four letters to [GGV Capital](#), [GSR Ventures](#), [Qualcomm Ventures](#), and [Walden International](#) are all available.

The [complete 68-page report](#) out of the Center for Security and Emerging Technology at Georgetown University is available for download.

A translation of China's "New-Generation AI Development Plan," provided by a group at Stanford University, is also [available](#).

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Rep. Michael Gallagher (R-Wisconsin) chairs the House Select Committee on the Chinese Communist Party.



Foley Lardner partner Louis Lehot says, "We have been telling U.S. corporations, investment funds and other investing entities with significant operations or investments in China to prepare themselves for a news article, an investigation or new regulation."