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Silicon Valley Long Dominated Startup Funding – Now has a new challenger

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The U.S. venture capital world has been forced to share its monopoly of the global market with a new upcoming player: China. The country has emerged as a power in the VC world. Asian investors directed nearly as much money into startups as American investors did, totaling 40% of the record $154 billion in global venture financing versus 44%, reported in the Wall Street Journal's article that analyzes data from private market data tracker Down Jones VentureSource. China, in particular, has seen a surge in investments marked by over the top valuations, intense competition for the best targets, and uncertainty on returns.

During the beginning of the year, 3,418 new venture-capital and private-equity funds in China raised 1.6 trillion yuan ($241.76 billion), over double the amount of 2015 and more than 10 times that of 2006, according to consultancy Zero2IPO Group. It estimates about 12,000 investment firms manage 8.5 trillion yuan in capital, an increase from 8,000 firms managing 5 trillion yuan in 2015. This has helped drive funding totals into the stratosphere and has transformed the VC landscape, from an USA-monopoly to a duopoly environment. However, even with these changes, U.S. investors remain the largest sources of global venture capital, conducting more deals than any other group. In 2017, American investors did nearly half of the venture rounds. The U.S. is also one of the most important drivers of innovation, with many of China's biggest investments simply copying the American-created technology.

On the other side of the startup's excitement over cash available to finance new technology, there is a very real prospect of the development of a trade war between the U.S. and China. This could potentially cripple venture finance along with overall investments if the countries go through with the threats to levy billions of dollars in tariffs on each other's products. However, since the tariffs are mostly focused on product exports like cars and agricultural goods, they are unlikely to have a strong impact on most startups.

China is creating "unicorns" at almost the same pace as the U.S., benefiting on funding from internet giants like Alibaba and Tencent Holdings. Money has rushed into the tech sector due to dwindling investment returns elsewhere and policy decisions by the Chinese government. Such decisions opened the credit taps last year to spur slowing growth, stirring money towards "innovation" in hopes of creating new economic drivers. This situation has lead experts to say that Chinese tech companies are at a critical size. The Chinese market alone is not enough to support their business and valuation, and the money will end up going first to the adjacent market where Chinese technology business models and capital have more impact.

Nevertheless, many in the U.S worry that strategic interests drive China's new endeavors into technologies. Experts say these interests include the Chinese state and local governments having investments in private venture funds and Beijing's interest in spurring startup VC activity.