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China Wins for Venture Capitalists Looking Abroad

By Claire Cain Miller

For venture capitalists, all eyes are on China.

Though venture investors have been looking across borders for several years now and continue to talk about new opportunities in places like India, Vietnam, Russia, Brazil and Israel, Chinese entrepreneurs seem to have done the best job at capturing their hearts, or at least their pocketbooks.

“Apparently, among venture capitalists, there’s China and there’s everyone else,” concluded the 2009 Global Venture Capital Survey by Deloitte Touche Tohmatsu and the National Venture Capital Association.

Half of the investors surveyed said they would increase investment in Asia over the next three years, more than in any other region. India was next, with 43 percent expecting to invest more there. About one-third planned to increase investment in South America, one-quarter in Europe and one-fifth in Israel. Just 17 percent said they planned to increase investment in North America.

The lines between whether a start-up is American, European or Asian are blurring because companies often have several offices and must work across several markets, said David Chao, a general partner at DCM. Still, he said, “innovation in the next decade will be led and driven by the Pacific Rim — that’s where the action will be.”

Gavin Ni, chief executive of Zero2IPO, a venture capital research and advisory firm in China, said in the report that China was “the most exciting venture market” because, he predicted, it would be the first country to emerge from the downturn and would be helped by its growing G.D.P. and swelling middle class.

The report also found that strained exit markets and government policies have discouraged some investors from making bets in North America.

Mark Jensen, national managing partner of Deloitte’s venture capital services, said that the recession may be speeding up the globalization of the industry, in part because more United States-educated entrepreneurs are returning to their home countries. There, they find that the ecosystems for taking risks and starting new companies are being built up and that there is greater innovation and access to capital, he said.

Almost half of American venture capitalists surveyed said China had the most to gain in overall economic stature over the next three years, while only a quarter said the same about the United States. Fifty-seven percent said the United States had the most to lose.

Perhaps not surprisingly, just over half of Asia-Pacific venture capitalists said China had the most to gain in economic stature, while only 5 percent said the United States did.

“With the rest of the world looking at the future of the industry and where people will be investing, there’s no question among any respondents that the United States’ elevated status cannot continue to be taken for granted, particularly given this new economic environment and the entrepreneurial ecosystems that are emerging around the world,” the report said.