EXPORTER NEWSLETTER

Venture capital's cold war

…or how I learned to stop worrying and love decoupling.

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The India-based VC firm Peak XV is having an exciting few months. A TechCrunch report on Friday laid out the firm's good news, bragging that it had signed 10 new term sheets and made three exits since it split with the U.S.-based Sequoia Capital in June. By all accounts the firm is thriving, at least by the numbers, and it's a perfect example of how the global venture capital game is fracturing.

Startup funding is going through the same chaotic decoupling that's roiling supply chains and semiconductors — and just like hardware, it's mostly about the rivalry between the U.S. and China. As VCs in the U.S. pour money into the next generation of companies, China hawks in the U.S. government want to make sure those funds aren't flowing to America's enemies. At the same time, VCs want to put the money where it will have a chance to grow — and increasingly, that means looking outside the U.S.

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This, in a rough sketch, is the tension that tore apart Sequoia Capital, one of the most successful venture capital firms of the modern era. The company was an early investor in Apple, Google, YouTube, and Instagram — but in recent years, its biggest wins have come from Chinese firms like ByteDance and Shein.

That led to internal tensions between the branches, and in June the firm finally gave in, splitting the Sequoia divisions into separate companies: One for the U.S. (Sequoia Capital), another for China (Sequoia China), and another for India and Southeast Asia (Peak XV). (There is also an independent hedge fund and wealth management business, although they're less interesting for our purposes.) In a note announcing the news to its limited partners, Sequoia's leaders argued their global investment model was no longer working. "It has become increasingly complex to run a decentralized global investment business," the note read. Rivalries across regions, it argued, "has made using centralized back-office functions more of a hindrance than an advantage."

The Wall Street Journal told a spicier version of the story, with Sequoia facing intense pressure from the White House over its China division, particularly as Sequoia-backed entities were found doing contract work for the Chinese military. But the overall gist is the same: In a decoupling world, investors aren't going to be allowed to play both sides.

The conventional wisdom was that the Sequoia split would direct money back into U.S. businesses and leave international markets high and dry — particularly since there wasn't a non-compete agreement between the three new funds. But it hasn't quite worked out that way. Last month, news broke that Sequoia China was in talks for a new $2.8 billion fund, including funding from the municipal government of Hangzhou. That kind of direct government investment is unheard of in the U.S., but fairly common in China — and politically easier when there aren't U.S. ties to worry about.

In broad strokes, the story is still the same: Fewer global ties still mean smaller markets, which means less funding and a harder path to scale. But the early success at Sequoia China and Peak XV shows the picture isn't quite as bleak as some feared. There are new funding sources to be found. New ideas that can flourish in the regional system that wouldn't have survived in the global one. It's a new way of thinking about tech funding — one that's a lot less oriented around the view from Sand Hill Road.

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