STONEBENCH

Capital controls: a catch-22 for Asian private equity

How the rise of outbound investment screening could redefine the architecture of Asian private equity



Executive summary

For three years, the retreat of Western institutional money from Chinese and China-adjacent assets could be viewed as a risk-adjusted decision to market factors—weak exits, currency drag and a difficult macroeconomic landscape—but in light of recent legislative developments, that understanding now looks dated.

In December 2025, the US enacted the Comprehensive Outbound Investment National Security (COINS) Act, which effectively converted a reversible executive order for capital controls into a funded statutory regime. US regulators would now have codified authority to compel divestment of completed prohibited transactions, as well as a mandated process for identifying un-notified deals and implementing regulations.

A US limited partner in Asia-focused alternative investment funds is able to side-step the rules by either capping its committed capital at a trivial figure or by receiving an assurance from the fund manager that its capital will not be used to fund transactions covered by the regulation.

This has brought compliance into the limited partnership agreement; and the response from fund managers has been structural. Evidence of restructuring has been seen in the past few months. Ten of the largest global private capital firms made no new publicly disclosed equity investments in mainland China in the first seven months of 2026.

At the same time, China has developed a mirror framework with a national-security review of outbound investment and an extension of cross-border controls to include not just goods and data, but also services and personnel.

But it isn't doom-and-gloom for Asian private equity as Western capital is not abandoning pan-Asian mandates altogether. Moreover, Europe is not following in the US' footsteps, but is instead tightening its position on inbound screening rather than outbound investment. The central question for the coming year is which way the US Treasury's next rulemaking round will move the needle.



Image by natanaelginting

Introduction: a different kind of risk

Over the past few years, as geopolitical and trade tensions have mounted, outbound investment controls have become a key feature of global politics and geoeconomics. In January 2025, the EU announced new regulations for monitoring and assessing potential outbound investments, following in the footsteps of the US, which had taken the first leap around the same time. One year later, China announced a national security review mechanism that would establish monitoring controls on assets and investments flowing out of the country.

These are just some of the examples of how outbound investment controls have begun to evolve beyond a form of executive discretion into widespread legislation. This is pushing Asia-focused managers to separate entities, committees and currencies rather than simply reweighting portfolios.

The bifurcation of Asian private capital has become a structural condition. Its principal effect is that capital could find itself increasingly sorted by source, rather than strength of opportunity.

The bifurcation of Asian private capital has become a structural condition. Its principal effect is that capital could find itself increasingly sorted by source, rather than strength of opportunity.

A new shape for capital controls

Capital controls are by no means a new phenomenon. Through history, governments have sought to limit and shape the flow of capital across national borders, with more of the scrutiny concentrated on inflows. However, investment laws are now shifting focus to outbound capital, and at the heart is a change in the legal character of capital controls.

At their most basic, export controls restrict what a firm may sell. Outbound investment screening restricts what an investor may own, and it does so by reaching through the ownership chain into pooled vehicles.

According to US technology export controls under 31 CFR part 850, US investors are prohibited from participating in transactions in three areas—semiconductors and microelectronics, quantum information technologies and AI—in China, Hong Kong and Macau, and those already engaged in these activities must notify the Treasury. The scope of those rules was expanded in December 2025 by President Donald Trump to include high-performance computing and supercomputing and hypersonic systems to the covered sectors, while Cuba, Iran, North Korea, Russia and Venezuela were also designated as countries of concern.

For a fund manager, it's not just what's prohibited that matters, but the exceptions. A passive limited partner interest sits outside the rules if it has committed capital under a *de minimis* figure—set at US$2 million, aggregated across the commitment and any co-investment vehicles—or if an investor obtains a binding covenant that its capital will not be used for a prohibited transaction. It is worth noting that a US$2 million ceiling is a commitment size few institutional allocators can work with, but if a manager declines the covenant, investors can seemingly walk away from the deal shrinking their commitments to the *de minimis* level.

This is how a national security mechanism gets transformed into a fund-structuring rule. For fund managers, there are only two paths to take:

- Accept and provide the covenant, in which case, the fund cannot pursue covered transactions even where they are the best available risk-adjusted opportunity, thus constraining its investment discretion.
- Refuse the covenant and watch as the dollar investor base shrinks to those willing to accept notification exposure and its attendant political consequences.

Faced with this Catch-22, the only way fund managers can comply without abandoning capital pools is by pursuing separation: one vehicle carrying the covenant and another that does not—each with its own distinct capital, governance and (increasingly) currency.

The impact of this shifting legal terrain could be greater than previously thought. There have been cases in which US managers have incurred prohibition or notification obligations because they were directly or *indirectly* investing in China-related companies. That has turned issues of domicile and structure into compliance questions.

According to US technology export controls under 31 CFR part 850, US investors are prohibited from participating in transactions in three areas—semiconductors and microelectronics, quantum information technologies and AI—in China, Hong Kong and Macau.

If regulators are primarily interested in enforcing compliance in the form of fund documents rather than how capital flows across borders, what does Asian private capital look like in the near-term?

At the same time, indirect exposure is extremely common in Asian venture and growth investing: a Singapore-headquartered portfolio company leveraging mainland engineering; a Korean chip-tooling supplier with a Hong Kong joint venture; maybe a Southeast Asian platform whose models are trained on infrastructure built out of a Macau research institution. There are interlocking interests and investments all across the Pacific Rim, and as fund managers get to grips with these, we could see Western capital leaving Asia.

A narrow, yet consequential question remains: if regulators are primarily interested in enforcing compliance in the form of fund documents rather than how capital flows across borders, what does Asian private capital look like in the near-term?



Image by Tom Fisk

What's triggered this shift?

Based on our analysis, three key developments in the past year have led to this moment:

Drying deals. Across the first seven months of 2026, 10 of the largest global private capital firms recorded no new publicly disclosed equity investments in mainland China. This was attributed to a combination of exit difficulty and Beijing's tightening scrutiny of foreign capital in sensitive sectors. The list included KKR, Blackstone, Carlyle, Warburg Pincus, TPG, EQT, Bain Capital, Advent International, Apollo and CVC. For comparison, the same group completed three publicly disclosed Chinese investments in 2025 and two in 2024, versus roughly a dozen in 2021.

The emergence of a mirror regime in China. In June 2026, China adopted its first State Council-level outbound investment framework, which establishes a dedicated security review of outbound investments and transfers, while also extending existing cross-border controls to include the export of services, including dispatching technical experts abroad and conducting training overseas. The framework includes broad powers covering the full lifecycle of an investment, penalties extending to personal liability and a consequent need for deeper diligence on any cross-border transaction with Chinese participants. Regulators may even look through corporate form and offshore structures, and offshore reinvestment through existing special-purpose vehicles is caught. This increases fund managers' obligations, who could potentially face twice as many regulators with overlapping jurisdiction and non-overlapping objectives.

Uncertainty around rules. Though the Treasury has targeted September 2026 to release its proposed rules, nothing has been published yet and these agendas routinely slip by. At the same time, regulators haven't yet replaced the US$2 million limited-partner figure with a *de minimis* amount that would determine whether an institutional investor can hold an uncovenanted interest in an Asia fund. Besides, sector scope remains unsettled as well, as lawmakers push for further additions such as biotechnology.



Image by Toby Yang

Asia's dynamic capital landscape

While it is reasonable to assume these changes could reorient Western capital away from Asian markets, the data doesn't seem to bear this out. In the first half of 2026, Asian Pacific private equity funds raised US$47.37 billion, with roughly 85% (US$39.2 billion) concentrated in three vehicles with pan-Asian mandates:

- Baring Asia Private Equity Fund IX—US$15.6 billion;
- Blackstone Capital Partners Asia III—US$13.1 billion; and
- Bain Capital Asia Fund VI—US$10.5 billion.

This tells us that Western institutional capital has not fled regional funds, but instead, consolidated into the largest of them. That concentration also suggests that capital isn't as concerned about geography as it is about institutional capacity: compliance infrastructure, jurisdictional segmentation and the ability to credibly communicate to US investors about how impacted transactions will be excluded.

While pan-Asian funds have attracted significant sums of capital, China-dedicated segments have not fared as well. In the first half of 2025, nine mainland China-focused private equity and venture funds raised US$350 million, compared against US$24.88 billion for the whole of 2024.

More to the point, sub-scale managers are ones facing the real challenge: they're too small to build a bifurcated platform, and simultaneously too China-exposed to fit a pan-Asian allocation.

Plenty of capital remains in Asia's underlying market. Venture investment has continued to climb, reaching US$50.8 billion across 2,676 deals in the second quarter, its strongest quarter since the end of 2021, including a China 18-quarter high of US$35.1 billion.

The composition matters as much as the total. KPMG records government and corporate capital playing an outsized role in the large financings, with significant chunks concentrated in AI, robotics, semiconductors, compute and advanced manufacturing—all of which reflect Beijing's industrial priorities. It is likely we are seeing one pool of capital replace another, though that comes with its own governance issues as the marginal price-setter in Chinese technology is increasingly an investor with a policy mandate, which changes what gets funded, on what terms and toward which exit.

The same logic is also reorganising exit channels: Hong Kong's exchange welcomed 87 new listings in the first half of 2026, raising HK$212.4 billion, up 94% year on year, alongside record half-year revenue and profit at the exchange operator, which retained its position as the world's second-largest listing venue. The territory is still drawing in ambitious companies, with Filipino restaurant chain Jollibee announcing plans to list its international arm in Hong Kong and abandoning its previous choice in the US. In July the Chinese AI developer Zhipu raised about US$4 billion in a Hong Kong placement.

Asia's financial hubs compete for capital

Asian governments are seeing the opportunity in these market changes and some are responding by competing for the domicile itself.

In August 2026, Singapore's central bank announced a package comprising a proposed tax exemption for profit-related returns from providing fund management services to qualifying funds, a new hedge fund investment programme and a dedicated investment management track under its top-tier work-pass framework.

Hong Kong has responded on tax and talent and is also building something Singapore cannot. The government's Hong Kong Investment Corporation is setting up an offshore renminbi venture capital fund to support Chinese technology firms expanding into global markets. The monetary authority, on the other hand, has expanded its RMB Business Facility from RMB200 billion to RMB500 billion with effect from 10 July, having already doubled it to RMB200 billion at the start of February.

We are seeing distinct strategies being employed by Asia's most important financial hubs to capture investment capital. Singapore is positioning itself as a jurisdiction where dollar capital is comfortable, whereas Hong Kong is where renminbi capital can step in. It's not a neat division by any means, as Hong Kong is simultaneously courting global managers and hosting international listings.

Singapore is positioning itself as a jurisdiction where dollar capital is comfortable, whereas Hong Kong is where renminbi capital can step in.

For governments, the upside is fee income, talent and institutional depth; but the downside is that they are assuming the risks of hosting structures whose legality is determined elsewhere. For corporates, the result is a narrower investor set, with mainland-linked technology companies increasingly sitting largely outside the addressable universe of dollar growth capital. Investors will be faced with the trade-offs between an unconstrained opportunity set and access to the deepest pool of institutional capital. Few can have both.

What bifurcated capital could mean for Asia

Compliance now dictates fund structure. To retain access to USD without cutting ties to mainland China, firms are defaulting to split corporate entities. Legal frameworks are being established, Hong Kong is expanding dual-currency investment vehicles. A precedent already exists: in September 2023, GGV Capital split into Granite Asia and Notable Capital, which allowed the firm's RMB funds to continue separately under a Chinese brand.

Bifurcation comes with a cost. Two entities mean two sets of regulatory permissions, two audit chains, duplicated compliance staffing and investment committees whose members must be sufficiently non-overlapping to be credible. Those costs are easily absorbed by a manager raising a US$15 billion pan-Asian fund, but it's prohibitive for a firm raising, say, US$300 million. Liquidity stress and compliance scale point are resulting in consolidation at the top, attrition in the middle and survivors in the middle who abandon dollar capital altogether.

Beijing's rules make the same structure harder to operate from the other side. With China extending cross-border controls to services and personnel, bifurcated platforms will find it even harder to function. What ensures two entities work as a single firm is shared people: skills and expertise operating and collaborating across a wall. China's new rules break that connection. Firms also cannot redomicile their way out of this, as the forced unwinding of the Meta-Manus partnership demonstrates, despite the latter's relocation to Singapore. Corporate form and offshore structures could now be fair game for China's regulators.

Compliance restrictions target China-linked deals, and not the technology itself. Managers are still free to invest in semiconductors, quantum, AI and advanced computing, just not in China. The prohibition attaches to China-linked covered transactions rather than the technology, so a covenanted vehicle remains free to back the same technologies in Japan, India or Korea. However, it loses China exposure in sectors where the region's technology returns have clustered. This means fund managers must then justify their Asia allocation on consumer, healthcare services, industrials, financial services, and Japanese and Indian deals. This could be happening. Japanese deal value reached JPY4.8 trillion in 2025, a fifth consecutive year above JPY3 trillion, making it the only major regional market to grow both deal value and volume.

Don't expect a reversal in policy. Brookings argues the US is now shut out of China's AI chip market, and that Beijing prefers a less capable indigenous ecosystem today over dependence tomorrow. Carnegie frames it as Beijing holding upstream chokepoints, Washington holding downstream IP and allies. The Peterson Institute, meanwhile, warns ad hoc US model controls may backfire, pointing to June's abrupt model restrictions and the reversal that followed. A policy reversal looks unlikely: laws and regulations are not the same as executive orders, and they are much harder to get rid of.

Some of the reallocation toward Asia-regional funds is about returns, not just compliance efforts, evidenced by early signs of investors turning back to Asia-regional vehicles as conditions improved. Moreover, European LPs do not face the same constraints yet. While they may face reputational and political pressure when it comes to their outbound flows, there is no legal prohibition. It is also a case of a multilateral institution delivering binding harmonisation, which cuts against the assumption that such institutions no longer function.

Conclusion

It must be re-emphasised that the changes being seen rest on statutes and not executive orders. As such, reversing course will require a series of concurrent and unlikely developments: an act of Congress, a change in Beijing's national-security posture, or a genuine thawing in relations between the two superpowers.

A permissive *de minimis* threshold and a workable safe harbour for segregated vehicles could enable the improvised architecture to become a market standard. A rule that treats affiliated vehicles as one could invalidate structures already raised, resulting in harder choices having to be made between dollar capital and mainland exposure.

It isn't entirely clear that bifurcated platforms will be able to withstand heightened enforcement scrutiny, and it is also not clear whether renminbi and regional capital can price Asian technology at scale without the dollar bid. What happens next will depend on a few key indicators:

- **Treasury's proposed rule under the outbound statute**, targeted for release in September but presently unpublished, could specifically look at the *de minimis* figure and provide guidance on the treatment of affiliated or parallel vehicles. This will determine whether an institutional allocator can hold an uncovenanted interest in an Asia fund at all.
- **Whether biotechnology enters covered scope**, by rule or through the bipartisan bills now before both chambers.
- **The first publicly reported enforcement action or compelled divestment** under the programme, which would establish how separation between affiliated vehicles is judged after the fact.
- **The outcome of the WuXi AppTec litigation**, as an indication of how far courts will police security designations that carry commercial exclusion.
- **How China's new outbound regime is applied in practice**, and in particular how the services-and-personnel provisions will impact cross-border investment staff.
- **Whether the Hong Kong offshore renminbi venture fund reaches a first close**, and whether local-currency vehicles attract third-party institutional capital rather than state and quasi-state money alone.

STONEBENCH

ABOUT STONEBENCH

StoneBench is a strategic editorial advisory and thought leadership studio specialising in topics at the intersection of economics, geopolitics, trade, finance, sustainability and policy. Our rigorous approach and deep understanding of key global trends have earned the trust of leading institutions, including banks, technology companies, multinationals, consulting firms, industry associations and policy advisory firms, for whom we shape thought leadership strategy and deliver end-to-end research and editorial programmes.