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Client Alert: China Made Meta Give Back a \$2 Billion Artificial Intelligence Acquisition: What It Means for Your Next Cross-Border Deal

For most in-house counsel advising on cross-border mergers and acquisitions (M&A), the calculus has been relatively straightforward: identify the target, confirm the governing jurisdictions, map the regulatory approvals, close the deal, and move on. If the company was incorporated in Singapore, the regulatory story belonged to Singapore. If the technology resided in an offshore entity, the analysis followed the entity. That premise is no longer safe. On April 27, 2026, China's National Development and Reform Commission (NDRC) ordered Meta to unwind its \$2 billion-plus acquisition of artificial intelligence (AI) startup Manus, marking the first publicly confirmed use of China's Foreign Investment Security Review (FISR) mechanism to reverse a consummated cross-border AI transaction.^[1]

The message from Beijing was direct: technological nationality does not follow corporate domicile. It follows where the technology was built, where the talent was trained, and where the intellectual property first took shape. For legal teams managing AI investments, acquisitions, or joint ventures with any Chinese-origin dimension, this is no longer a hypothetical risk scenario; it is a demonstrated enforcement reality.

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What Happened

Manus was founded in 2022 in Wuhan, China. The startup launched its AI agent in March 2025, going viral and drawing comparisons to DeepSeek.[2] Unlike many Chinese AI companies, Manus did not build its own foundation model. Instead, it developed an agent framework designed to operate on top of existing large language models, tools capable of carrying out complex tasks with minimal human intervention.

In mid-2025, Manus relocated its headquarters and approximately 40 core technical staff from China to Singapore, laying off roughly 80 China-based employees in the process, in a strategy that has since been labeled “Singapore washing.”[3] Meta announced the \$2 billion-plus acquisition of Manus in December 2025, and the deal closed shortly thereafter.[4] Manus did not seek Chinese regulatory approval for the relocation to Singapore, and Meta did not seek Chinese regulatory approval for the deal.

China’s Ministry of Commerce opened an investigation in January 2026, days after Meta completed the transaction. In March 2026, Manus co-founders Xiao Hong and Ji Yichao were summoned to Beijing and barred from leaving the country.[5] On April 27, the NDRC issued its formal prohibition order, stating it would “prohibit foreign investment in the Manus project in accordance with laws and regulations, and has required the parties involved to withdraw the acquisition transaction.”[6] By June 2026, Meta had begun dismantling the deal, halting data sharing and completing an operational separation.[7]

What Beijing Said, and What It Did Not

The NDRC invoked the Measures for the Security Review of Foreign Investment (2021), a mechanism that had never before been publicly used to unwind a consummated AI transaction. What makes the enforcement distinctive is not the statute it cited; rather, it is the analytical framework the NDRC applied.

The NDRC referred to the acquisition of the Manus “project” rather than a particular legal entity, signaling that it was looking beyond corporate formalities to the substance of what was transferred.[8] The Commission looked through Manus’s offshore structure and focused on what it characterized as the origin of the technology: where it was developed, where the engineering team accumulated its expertise, and how intellectual property was transferred out of the original Chinese entity.[9]

China’s state-backed Global Times amplified the doctrinal rationale, stating the issue was “not where the company is registered or where its team is currently based” but rather “the extent of its technological, talent, and data links with China, and whether the transaction could harm China’s industrial security and development interests.”[10]

What Beijing did *not* say is equally telling. The NDRC did not assert that Manus was currently operating in China. It did not claim the technology was subject to an existing export control. It did not rely on Manus’s current registration status. The enforcement rested entirely on the premise that technology developed by Chinese nationals on Chinese soil retains a regulatory nexus to China, regardless of subsequent redomiciling, corporate restructuring, or change of ownership.

As Han Shen Lin, Shanghai-based China country director at U.S. consultancy firm The Asia Group, observed, “Beijing effectively drew a bright red line that Chinese AI talent and technology are not for sale to American companies, full stop.”[11]

The “Technological Nationality” Doctrine

The Manus enforcement suggests that Chinese regulators may be attempting to establish a principle that practitioners must now account for: technological nationality follows origin, not domicile. The Ministry of

Commerce has effectively taken the position that where a technology was developed, not where the company holding it is registered, determines whether Beijing retains regulatory authority.[12]

This has immediate implications for the wave of Chinese-origin AI companies that have redomiciled to Singapore, the Cayman Islands, or Delaware in recent years. Chris Pereira, President and CEO of consulting firm iMPact, put it directly: “Singapore incorporation alone does not de-risk a deal from Chinese regulatory reach.”[13] Matthias Hendrichs, a Singapore-based advisor to global AI firms, was more blunt: “Chinese-origin AI now carries a kind of reversibility risk that no clever deal structure can price out.”[14]

For in-house counsel, the lesson is that redomiciling does not extinguish Chinese jurisdiction. Corporate restructuring does not sever the regulatory nexus. If the core technology was developed in China or by Chinese nationals who acquired their expertise domestically, Beijing has now demonstrated both the willingness and the mechanism to reach across borders and unwind the transaction after the fact.

The New Regulatory Codification

If the Manus enforcement established the principle, China’s legislature moved quickly to codify it. On June 1, 2026, the State Council issued the Regulation on Outbound Investment (State Council Decree No. 837), effective July 1, 2026. It is the first State Council-level administrative regulation governing outbound investment.[15]

Article 13 of the regulation specifically prohibits investors from “exporting, using, or transferring goods, technologies, services, or data prohibited from export, including through indirect means such as relocating technical personnel overseas, providing cross-border technical guidance, and arranging overseas training programs.”[16] The regulation introduces what commentators have termed “full-process supervision,” meaning regulators are concerned not merely with market entry or deal consummation but with ongoing operations, risk exposure, and conduct compliance throughout an investment’s lifetime.[17]

The regulation also establishes an outbound investment security review mechanism as a counterpart to the inbound FISR, extending Beijing’s reach to transactions in markets beyond mainland China and giving it the statutory authority to punish foreign firms whose home countries restrict Chinese investment.[18][19]

The regulatory framework now covers both ends of the transaction. An acquisition of Chinese-origin AI by a U.S. company may trigger review both as an inbound foreign investment under the FISR (from Beijing’s perspective) and as a restricted outbound investment under the new State Council regulation. The regulatory exposure is bilateral and cumulative.

Dual Regulatory Exposure

The Manus deal also illustrates a problem that extends beyond Chinese enforcement alone: U.S. acquirers of Chinese-origin AI face regulatory jeopardy from both directions simultaneously.

On the U.S. side, the Outbound Investment Rule (Executive Order 14105, codified at 31 C.F.R. Part 850), effective January 2025, restricts U.S. persons from making covered investments in entities involving Chinese persons in AI-related sectors.[20] On the Chinese side, the 2025 Catalogue of Technologies Prohibited or Restricted from Export captures core AI techniques including large-scale personalized recommendation algorithms.[21]

Companies face dual jeopardy: potential U.S. violations for investing in Chinese-origin AI, and Chinese violations for acquiring Chinese-origin technology without approval. The compliance question is no longer whether one jurisdiction objects; it is whether either jurisdiction has grounds to act. As the Manus case

demonstrates, both may.

What In-House Counsel Should Do Now

1. Trace technological nationality in every AI-related transaction. Due diligence must now extend beyond entity jurisdiction and corporate structure to map the origin of the technology itself. This means identifying where core research and development was performed, the nationality and training history of the founding technical team, whether the company previously operated in China, how intellectual property was transferred offshore, and whether the restructuring process received Chinese regulatory approval. A target company's current Singapore or Delaware registration is no longer a sufficient jurisdictional answer.
2. Assume post-closing regulatory risk for Chinese-origin AI. The Manus enforcement demonstrates that Chinese authorities may assert continuing regulatory authority over technology or data that originated in China, even after assets have changed hands offshore and the transaction has closed. For AI ventures with Chinese origins, regardless of current domicile, parties should assume they may remain within Beijing's regulatory purview. Deal structures should account for the possibility of a post-closing unwind order, including appropriate representations, indemnification provisions, and escrow mechanisms.
3. Map dual-jurisdiction exposure at the term sheet stage. Any acquisition, investment, or joint venture involving Chinese-origin AI should be assessed simultaneously against U.S. outbound investment restrictions under 31 C.F.R. Part 850 and China's inbound and outbound security review frameworks. Waiting until the deal is consummated to address one jurisdiction while assuming the other presents no risk is precisely the error that left Meta exposed.
4. Revisit existing portfolio investments and vendor relationships. The new regulatory framework does not apply only to future transactions. In-house teams should audit existing AI investments, partnerships, and vendor arrangements for Chinese-origin technology or talent. Where such connections exist, counsel should assess whether retrospective regulatory exposure has been created by the Manus precedent and the State Council regulation and whether remedial steps, including voluntary disclosures or restructuring, are warranted.
5. Price the "China regulatory discount" into valuations. Cross-border exits of Chinese-origin AI ventures to U.S. buyers now carry a demonstrated risk of post-closing regulatory intervention. Valuations, deal timelines, and closing conditions should reflect this reality. Acquirers should insist on regulatory representations specific to Chinese technology export controls, and sellers should expect that unresolved China touchpoints will result in material valuation adjustments or, in some cases, deal failure.

Conclusion

The Manus unwind is not an isolated enforcement action but rather establishes a new baseline. Beijing has demonstrated that it will reach through offshore structures, past corporate reorganizations, and beyond national borders to assert authority over technology it considers Chinese in origin. The new State Council regulation ensures that this authority is not ad hoc. It is statutory, prospective, and enforceable at every stage of an investment's lifecycle.

For in-house counsel, the practical takeaway is that any AI-related transaction touching Chinese-origin technology, talent, or data now requires a different diligence framework, one that looks past corporate formalities to the substance of what is being acquired. The question is no longer where the company sits; it is where the technology was born.

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[2] Merlyn Shelley, *Manus AI vs. DeepSeek R1: Redefining AI-Powered Task Automation for Data Professionals*, Packt Hub (Mar. 13, 2025), <https://medium.com/packt-hub/manus-ai-vs-deepseek-r1-redefining-ai-powered-task-automation-for-data-professionals-507a81d9e55e>.

[3] Anniek Bao, *Beijing's Surprise Intervention on Meta's Manus Rattles Tech Founders, VCs Eyeing 'China Shedding'*, CNBC (Mar. 27, 2026, updated Mar. 30, 2026), <https://www.cnbc.com/2026/03/27/meta-manus-china-review-singapore-washing-model-regulation-.html>.

[4] Kane Wu, Laurie Chen & Eduardo Baptista, *Blocking of Meta's AI Startup Buy Raises Risk for Cross-Border China Tech Deals*, Reuters (Apr. 28, 2026), <https://www.reuters.com/legal/transactional/blocking-metas-ai-startup-buy-raises-risk-cross-border-china-tech-deals-2026-04-28/>.

[5] Bao, *supra* note 3.

[6] Nat'l Dev. & Reform Comm'n, Office of the Working Mechanism for Security Review of Foreign Investment, *Decision on the Foreign Acquisition of the Manus Project* (Apr. 27, 2026), <https://zfxxgk.ndrc.gov.cn/web/iteminfo.jsp?id=20623>.

[7] Anniek Bao, *Meta Reportedly Begins Dismantling \$2 Billion Manus Deal on Beijing's Orders*, CNBC (June 12, 2026), <https://www.cnbc.com/2026/06/12/meta-reportedly-begins-dismantling-2-billion-manus-deal-on-beijings-orders.html>.

[8] *Decision on the Foreign Acquisition of the Manus Project*, *supra* note 6.

[9] Liao, *supra* note 1.

[10] Global Times, *How Should We View China's Decision to Halt the Manus Acquisition?* (Apr. 28, 2026), <https://www.globaltimes.cn/page/202604/1359940.shtml>.

[11] Wu, *supra* note 4.

[12] Minghao Sun, *Manacled Manus: The Limits of 'Singapore Washing' for China AI*, Asia Times (Apr. 17, 2026), <https://asiatimes.com/2026/04/manacled-manus-the-limits-of-singapore-washing-for-china-ai/>.

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[14] Bao, *supra* note 3.

[15] State Council of the People's Republic of China, *China Unveils Regulation on Outbound Investment* (June 1, 2026), https://english.www.gov.cn/policies/latestreleases/202606/01/content_WS6a1d2e29c6d00ca5f9a0b59e.html.

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[21] *Id.*