

China's Startup Ecosystem Policy



SangBaek HYUN

Ph.D./Head, Chinese Economy and Trade Team
 Korea Institute for International Economic Policy

The Chinese government is moving toward a qualitative growth model in the era of “New Normal”(新常态), transitioning from the existing quantitative growth model. In line with the transition, since 2015 the Chinese government has been implementing a strategy of “mass entrepreneurship and innovation” (大众创业,万众创新), which involves building a startup ecosystem in order to solve youth unemployment and create new growth engines. Thanks to the success story of China's BAT (Baidu, Alibaba, Tencent) and these new policies by the Chinese government, the startup entrepreneurship boom in China has grown rapidly, together with an explosive expansion of infrastructure and platforms for startups.

Around 2015, when China first began to implement its startup policy in earnest, the domestic startup market in China expanded rapidly, also leading to a rapid rise in the international status of the Chinese startup ecosystem. The number of new companies in China recorded a daily average of 19,400 in the first half of 2019, increasing by 7.1% YoY. As of

year-end 2018, the number of “Mass-Innovation Spaces” (众创空间) established to provide entrepreneurial support services reached a total of 6,959 throughout China. China's Global Innovation Index (GII) rose from 35th in the world in 2013 to 14th in 2019,¹ and Beijing and Shanghai respectively ranked as the 3rd and 8th best cities in terms of global startup ecosystems.² As of the end of June 2019, the number of global unicorn companies in China rose to 206, overtaking the US (203) to lead the world.³ Chinese unicorn companies are showing particularly rapid development in the sectors of e-commerce, fintech, media, logistics and artificial intelligence (AI).

This remarkable development in China's startup market can be attributed to the Chinese government's startup ecosystem policy. In June 2015, the State Council of China announced the Master Plan of the Startup Ecosystem Development Strategies (国务院关于大力推进大众创业万众创新若干政策措施的意见⁴), which included support for startup funding, expansion of startup investment, creation of a startup environment, and the spread of startup culture. Announced twice in 2016 and 2017, 120 national-level startup pilot bases were selected for regions, companies, and universities to provide ample policy support for the establishment of startup support platforms.

China's startup ecosystem policy includes various contents such as deregulation, improvement of business environments, platform construction, funding of entrepreneurship, conversion of entrepreneurship education, and commercialization of science and technology. First of all, the “FangGaunFu”(放管服) reforms involve simplifying administration and deregulation, improving the company registration system and the entrepreneurship environment to make it easier to start startups by reducing the capital requirements involved.

Next, the Chinese government established a startup support service platform called “Mass-Innovation Space,” which is a government-supported and privately-run startup support platform centered on 120 national pilot bases, to play the role of startup incubator and accelerator. In relation to startup financing, the government established government startup support funds, such as the National Entrepreneurship Fund (40 billion yuan) and the National Small and Medium Business Development Fund (60 billion yuan), and opened a Chinese version of the NASDAQ technology board, the Science and Technology Innovation Board (科创板) at the

¹ WIPO (2019), Global Innovation Index (GII) 2019.

² Startup Genome (2019), Global Startup Ecosystem Report 2019.

³ Hurun Research Institute (2019), Hurun Global Unicorn List 2019

⁴ http://www.gov.cn/zhengce/content/2015-06/16/content_9855.htm

Shanghai Stock Exchange in July 2019. This led to the vitalization of the startup investment market.

In the area of entrepreneurship education at universities, China has progressed from theory-based entrepreneurship education to practice-oriented education, for instance through the holding of various startup competitions, etc., and aims to inspire the entrepreneurship of college students and strengthen the connection between universities and businesses, venture capital (VC), and platforms. Recently, the Chinese government has promoted the policy of promoting the commercialization of science and technology and improving the intellectual property protection systems at universities and research institutes, emphasizing the establishment of an innovative entrepreneurial ecosystem in accordance with the national innovation-led development strategy.

Despite the many achievements of the Chinese startup ecosystem, many challenges still remain to be solved. First of all, as the entrepreneurial investment market gradually cools down after an initial period of irrational overheating, investors are now taking reasonable and prudent attitudes when making investment decisions. This indicates the stabilization of China's online platform market, which has grown rapidly over the past few years, while also reflecting a market situation in which it is difficult to find a new star company. In the past few years, China's startup market has been mostly based on fresh ideas or new business models, and these startup models have reached their limits. Ofo, which has grown into a unicorn company as a shared bicycle business model, is a typical example. Its innovative ideas attracted investment and made rapid progress, but the company failed to find a stable profit model, leading to bankruptcy.

In the next few years, the Chinese startup market is expected to enter a huge restructuring phase after the rapid growth phase. As a result, startup companies, VCs, and startup support platforms including mass innovation spaces, which have shown rapid growth, are expected to be mostly abandoned if they cannot secure their own competitiveness. China's large-scale VCs and platforms, with their funding and expertise, are expected to become larger and more concentrated in resources and information, leading to polarization of the startup market.

The outlook for startup policies in China and its market is as follows. In the future, the functioning of the government and the market will make clearer contributions in establishing the startup ecosystem in China. Previously, the private platforms focused on finding and investing in small and medium-sized startups, but in the future, cooperation with large companies (SOEs) is expected to expand into operation models that match startups in finding new businesses. This

will likely be used as a platform for building an innovation ecosystem for large, wealthy companies.

There will be two main directions for the Chinese government to further improve the startup ecosystem in the future. First, the government will aim to maintain a virtuous ecosystem by expanding support to companies marginalized from the startup market. In the future, the polarization of the Chinese startup market is expected to intensify funding for small and medium-sized startups, which will increase government support for these startups. The other direction for support will be the expansion of policy support for science-based innovative startups. Recently, the Chinese government has been promoting awareness of these startup policies as part of the national innovation system. In the future, support for R&D at corporations, universities and research institutes will be expanded, and in particular, the transfer of science and technology achievements and the protection of intellectual property rights will be at the focus of startup ecosystem policy.

The implementation of the “mass entrepreneurship and innovation” strategy in 2015 has led to the establishment of a mutually organic innovation ecosystem through various platforms among the government, corporations, VCs, universities, and research institutes. In addition, in the process of forming a startup boom through startup policy, China has presented an opportunity for each actor to develop and transform into an innovation agent that forms the national innovation ecosystem of China. In the future, it is expected that China's startup strategy will be pursued as a part of building a national innovation ecosystem by connecting with development strategies for new industries and the science and technology sectors.

It is noteworthy that China's startup ecosystem is led by the government, which shows a different development process from the US market-led startup ecosystem. China's establishment of a startup ecosystem is highly linked to its strategies to develop new industries and science and technology. And in response to the US technology blockade, the Chinese government will emphasize open innovation and implement a policy of expanding startup and innovation cooperation with technology-advanced countries such as Germany, Israel, Japan, and France. We also need to consider whether there is a need to expand joint R&D and technical standard cooperation in preparation for the Fourth Industrial Revolution by expanding startup cooperation with China. [KIEP](#)