

China's Startup Ecosystem Policy and Implications

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I. Introduction

The Chinese government is moving toward a qualitative growth model in the era of “New Normal,” 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,” 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, the startup entrepreneurship boom in China has grown rapidly, together with an explosive expansion of infrastructure and platforms for startups. To determine whether China's economy can be transformed into an innovative economy, we need to carefully examine and evaluate China's strategy and status of developing the startup ecosystem.

II. The Development Status and Policy of China's Startup Ecosystem

Around 2015, when China's strategy for developing a start-up ecosystem was announced, China's start-up ecosystem showed rapid development in terms of enhancing its international status and expanding the domestic start-up market. China's global innovation index rose from 35th in 2013 to 14th in 2019, and Beijing (3rd) and Shanghai (8th) have emerged as the top 10 cities in the global startup ecosystem. Although there are differences in the number of global unicorn companies depending on the method of aggregation, it is competing with the U.S. for first and second place. In particular, the growth of unicorn enterprises in e-commerce, FinTech, media, logistics and AI sectors was remarkable. The number of new companies in China has increased rapidly and “mass innovation space,” a platform for supporting start-ups, has been established, laying the foundation and infrastructure for start-up ecosystems.

The Chinese start-up boom and performance were formed by the start-up myth of BAT as well as the implementation of China's policy to develop its startup ecosystem. In 2015, the Chinese government announced a master plan for the development of the startup ecosystem and implemented a step-by-step development policy according to the stage of development of the startup ecosystem. Initially, it was promoted by focusing on establishing the foundation for the business ecosystem, such as improving the business environment, building a platform, and revitalizing the start-up investment market. Since 2017, China's start-up policy has been focused on upgrading its start-up ecosystem to an innovative ecosystem, including the commercialization of science and technology, stronger cooperation between startups and large enterprises, strengthening of external cooperation for start-ups and building a global start-up base.

III. Roles and Characteristics of Each Actor in China's Startup Ecosystem

China's start-up ecosystem consists of the government, corporations, government funds, VCs, universities and research institutes, all of which are organically linked to gradually build up an innovative ecosystem.

The central government played the role of establishing strategies for the development of the startup ecosystem and presenting directions, including the implementation of policies in various fields, including human resources, funds, education, science and technology, at the center

of the State Council, in connection with the national innovation-driven development strategy.

On the basis of the central government's policy, the local governments push forward the strategy of establishing a regional start-up ecosystem based on the distinctive industries and comparative advantages of each region, and implement policies reflecting specific regional characteristics, such as space, human resources and financial support. Beijing's Zhongguancun has developed into a representative start-up region within China through the active support of Beijing City, and Shenzhen City is emerging as an innovative start-up city that combines manufacturing and ICT.

Corporations are playing a prominent role in building the start-up ecosystem in China, and based on the success story of BAT, they are creating a positive perception of start-ups, and are also playing a role as investors by establishing a start-up investment ecosystem centered on BAT. In addition, it was confirmed that these companies made a significant contribution to the development of the Chinese startup ecosystem by establishing a platform to support start-ups to discover new businesses and fostering talent for start-ups through the establishment of specialized schools for start-ups. Online platform companies such as Tencent are building their own online ecosystem by fostering startups through open innovation platforms. At the same time, traditional manufacturers such as Haier, China's leading electronics maker, are also seeking to build an ecosystem for innovative start-ups by supporting small-scale start-ups of its employees.

The government's fund has contributed to the revitalization of the start-up investment market by inducing investment in start-up companies, and has led investment in related industries and technology start-ups, especially for the development of the national strategic industry. The Chinese government is strategically supporting startups in the field through cooperation with local governments in each region by utilizing artificial intelligence funds and semiconductor funds previously established to foster new industries.

VC serves as a major financing channel for companies to grow through investment in accordance with the stage of development of start-up companies, and promotes corporate growth through management consulting for start-up companies. Going beyond the traditional start-up education of promoting the spirit of college students' entrepreneurship and revitalizing start-ups, universities are expanding exchanges between schools, businesses and VCs through start-up competitions and platforms, and supporting college start-ups by utilizing various funds raised in cooperation with fellowships, businesses and local governments.

Scientific research institutes are expected to play a key role in establishing a technology start-up and innovative start-up ecosystem within China, and the establishment of new research institutes is being promoted to develop science and technology suitable for market demand and expand performance transfer. A prime example of such a new research institute is Shenzhen Institutes of Advanced Technology (SIAT), which is leading the commerciali-

zation of science and technology by establishing an ecosystem of micro start-ups operated upon marketing principles in cooperation with large enterprises, local governments and funds.

IV. Evaluation and Implications

China's "mass entrepreneurship and innovation" initiative has made a great contribution to the establishment of the start-up infrastructure and platform, showing explosive growth while concentrating and interacting with the innovation resources and elements of China's economic players, businesses, local governments, VCs, universities and research institutes. Despite these achievements, however, the Chinese start-up market is expected to face a major challenge. The investment market for start-ups will shrink due to investors' careful investment decisions and existing start-up models will face limitations. In the future, China's start-up market is expected to end its fast-growing period and enter a huge restructuring period, with most of its platforms to support start-ups, including start-ups, VCs and "mass innovation spaces," expected to fall behind. China's large VCs and platforms, with their financial power and expertise, are expected to grow even larger in the future and focus on resources and information, creating a polarization of the start-up market. In the future, the Chinese government is expected to provide two major support directions for the establishment of an ecosystem for start-ups: expanding support for areas that are alienated and expanding support for innovative start-ups based on science and technology.

The Chinese startup ecosystem development strategy holds the following implications for Korea: there will be a need to promote startup policies in connection with the establishment of a national innovation system, establish a control tower dedicated to startup policies, applying the principle of “pre-enforcement post-regulation” for new business models, establish a private entrepreneurship support platform, promote support plans by startup development stage, provide market-oriented startup education, and promote science and technology achievement transfer. **KIEP**