



ENTREPRENEURSHIP

IDEAS AND INSIGHTS

China’s Onramp to Innovation

As its population grows older, China knows it must embrace technology and high paying jobs to become a wealthy economy.

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When President Xi Jinping delivered his seminal “Thought on Socialism with Chinese Characteristics for a New Era” speech last October, he used the word “innovation” 14 times. That theme reverberated throughout the recent 11th Annual China Business Conference, cosponsored by the Chazen Institute.

“To understand modern China is to understand the new transitional era and the push to build an innovator country,” Daqing Mao, founder and CEO of Ucommune, and one of the conference speakers, told the audience.

As it aims to build a “mutually wealthy society” and create a social safety net capable of caring for its aging population, China “must rely on technical development to take control of the future,” he noted.

Creating a Launching Pad

The private sector has embraced the challenge, panelists observed. Lessons learned from non-SOE behemoths such as Alibaba and Tencent (both of which claim market caps of more than \$500 billion) suggest Chinese startups differ from entrepreneurial companies in the United States or other developing countries.

According to Hans Tung, managing partner at investment firm GGV Capital, which has invested in Chinese companies including Alibaba and 21Vianet, and US companies such as Airbnb and Poshmark, the Chinese startup mindset involves thinking big. Strategies inherent in the gargantuan mentality include:

- **Embrace technologies** — a bunch of them. While riding digital innovation and artificial intelligence to success, Alibaba and Tencent have branched out in meaningful ways from their roots. For example, each has invested in genetic R&D.
- **Go geographically broad.** Given the breadth of the country, startups need to tackle massive markets. Beyond domestic greenfield development, global M&A helps companies extend their reach and grab new technologies. Zhiping Liu, a partner in the Chinese-American law firm Liu, Zheng, Chen & Hoffman, said purchases in the US have gotten “smaller and smarter,” reflecting the entry of non-SOE money in areas such as healthcare, where small Chinese companies have moved to nail down Chinese distribution rights.
- **Put the pedal to the metal** — expand really fast. Citing what he called “the ferociousness of competition” in China, Tung indicated that an entrepreneur who favors profits over market share could see a competitor run away with the market.

Leaders of the Charge

One of the most striking features of the conference was the variety of startups represented among panelists. For example:

- **Yiviva.** The biotech company “fuses the best practices of Western and Eastern” medical practices by imposing Western scientific rigor to

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investigation of herbal cures, explained CEO Peikwen Cheng. By screening hundreds of botanical medicines, the company has targeted aging-associated diseases. It recently won several awards for 906, which Cheng calls “a template drug” to attack cancer.

- **Lushu Technology.** Launched as a consumer-facing travel agency, the company’s platform now provides operating systems and customized travel solutions to corporate clients and small travel agencies.
- **College Daily.** The site consolidates information for Chinese students studying abroad.
- **YCloset.** For a monthly subscription fee, members rent unlimited clothes and accessories through its website. Investors among the \$50 million series C funding that closed in September include Alibaba, Softbank China and Sequoia Capital, a Silicon Valley fund whose early investments include Google and Apple.

What China has in its favor, according to participants at the conference, is growing consumer demand in industries ranging from medicine and finance to education and entertainment. Startups are using technology and meeting the trends shaping a consumer-facing society. “China has already benefitted from a population dividend,” said Zhanpeng Jian, managing partner at Coalescence Partners Investment Management. “Now it will benefit from the technology dividend.”

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