China – a focus on local policy

Regional differences in the policy initiatives for entrepreneurial activities

Li Xiao

David Smallbone

Abstract

This chapter focuses on local public policies relevant to SME development and entrepreneurship in China. Previous research has mainly been concerned with specific policies and programmes promoting innovative SMEs and entrepreneurship at the national level. Using the documents of entrepreneurship policy initiatives and datasets on SME development in two contrasting provinces covering a period of 10 years, entrepreneurship policy in China is shown to be more complex than in most other countries, serving not only entrepreneurial activities but also institutional transition. Geographic disparities in SME development and entrepreneurship are demonstrated (see detailed analysis undertaken in Guangdong and Sichuan). As a result, whilst there are marked differences in the policy priorities in Guangdong and Sichuan, all levels of government share a common goal to promote entrepreneurship and innovation.

Key words: entrepreneurship, entrepreneurship policy, regional variations, local focus, China

Introduction

It is widely acknowledged that entrepreneurship can act as a means to stimulate economic development in a region or country (Hart, 2003; Autio and Rannikko, 2016). Moreover, in transition economies such as China, government has been a key factor influencing the extent to which the business environment has been transformed. In China, the institutional infrastructure and legal framework for SME development and entrepreneurship has been improving over recent decades (Lundstrom and Stevenson, 2005). Furthermore, governments at the country, provincial, city, and town level use entrepreneurship policy to address challenges related to economic growth and social development (i.e. job creation, unbalanced and inadequate development). At the same time, it is not always clear how local policies relate to national policies in seeking to foster entrepreneur.

The Story So Far

Entrepreneurship policy is relatively new in China. Moreover formal SME policy has only existed since 2002 when China amended the constitution to grant non-state-owned firms a legal status (Chen, 2006; Lundstrom and Stevenson, 2005;
A well-organised entrepreneurship policy did not exist until 2015. Of course, entrepreneurship policy is not the same as SME policy. Whereas SME policy is concerned with existing firms, entrepreneurship policy focuses on the creation of new firms and growth of existing ones. Although SME and entrepreneurship have been responsible for much of China’s rapid economic growth over the last four decades, there does not appear to be a strong relationship between the rapid growth of SMEs and public policies towards SME and entrepreneurship (Xiao and North, 2012; Atherton and Smallbone, 2013). Nevertheless, government intervention has been the constant key in transforming the business environment over this period. The focus of public policies towards business has changed dramatically during the last 40 years. Initially, public policy at the central level emphasised on supporting and reforming state-owned companies. In China’s constitution, SMEs and the private sector were excluded from the mainstream of economic activity until the late 1990s. Town and village owned enterprises (TVEs) were created and grew rapidly supported by town and village governments directly and indirectly during the 1980s and 1990s. However, from the early 2000s, local governments were no longer allowed to own and operate TVEs, and more generally government officials were no longer allowed run their own private firms.

An entrepreneurship policy framework has formally emerged since 2015, aiming at creating new growth engine for China’s economies. A shift of public policies from an emphasis on the existing stock of enterprises to a much broader focus on both nascent and existing entrepreneurs has been made and over a relatively short period of 11 years. Changes made to the public policies include a greater emphasis on both “nascent” and existing entrepreneurs rather than existing stock of firms, and greater focus on the entrepreneurial process from preparing, starting, surviving, and fast growing a venture. The attitudes of government officials and policymakers at different levels towards entrepreneurs and entrepreneurial activities has become more positive over time, helping create a positive social image of entrepreneurs and promote entrepreneurial culture. The quality of entrepreneurship across the nation improves over time; with the Eastern and Coastal regions have higher level of entrepreneurial activities compared to others. Nevertheless, the perception of cultural values and social norms towards entrepreneurship therefore becomes more encouraging.
Entrepreneurship policies are more complex in China than in other contexts. The domain of entrepreneurial policy is larger in China than in countries like the USA and European countries. It encompasses not only activities at several levels of governments and different industry sectors (Hart 2003), but it is embedded in the institutional transitions and social issues. One of the objectives in developing entrepreneurship policy initiatives at the national level in China is to use them as a means to serve the institutional transitions.

Entrepreneurship policy initiatives introduced by provincial governments need to serve two purposes: implementing the principles introduced by the national government and promoting regional entrepreneurial activities. City and town governments are responsible of implementing provincial policies to promote entrepreneurial activities and grow local economies. The more important the policy, the more government departments involved. For a relatively long time, there has been a lack of explicit and consistent entrepreneurial policies because of the nature of institutional transitions. The contribution of SMEs and entrepreneurship to rapid growth of China’s regional economies has been far more than the support received over the last four decades.

Spatial Variations in Entrepreneurship

China is characterised by large geographical disparities in economic development. (Xiao and Ritchie, 2009). As a consequence, public policy must at least be sensitive and flexible enough to accommodate these regional differences and in some cases contribute to narrowing the gap. Specifically the development of entrepreneurship in the Western and Central areas is much less that it is the Eastern and coastal region (Lundstrom and Stevenson, 2005). Such large geographic disparities suggest that the challenges that subnational economies in China face vary enormously. Entrepreneurship framework conditions, entrepreneurship productivity, and entrepreneurial culture reflect this variation. Thus, it might be expected that the kind of support that public policies give directly to new venture creation, innovative young ventures, and specific industries to differ according to the economic development of a host region. We might also expect that the kind of support that public policies give directly to the intermediates (i.e. business incubators or technology business incubators) for the development and commercialisation of technology-based
firms (i.e. incubated firms) to vary according to the level of economic
development of a host region (Folta et al., 2006; Fritsch and Slavtchev, 2011).
Regions with more advanced economies and more supportive infrastructure
are likely to have an advantage over others lacking in these respects (Xiao and
North, 2018). However, we know little about how entrepreneurship policy
incorporates the local, provincial, and country level, and how public policies
relevant to the small and medium-size enterprise (SME) development and
entrepreneurship actually operate and work in China.

Local Policy and Practice

In order to investigate the effects of spatial variations in entrepreneurship on
public policy, we undertook a comparison of two contrasting provinces. These
are Guandong and Sichuan; Guangdong to represent the Eastern and Coastal
region which has more advanced economies compared to other regions in
China; and Sichuan to represent the Western and Central regions.

The data sources used for this study included both primary and secondary.
Secondary data included in documents of entrepreneurship policy initiatives
and the results of the governments annual survey data. This was supplemented
by primary data consisting of results from face-to-face interviews with some
local officials. In order to provide a focus and facilitate comparison the
empirical investigation concentrated on a policy called the Mass
Entrepreneurship and Innovation programme. This policy was initially
introduced by the Central Party Committee and State Council in 2015, aiming
to encourage both elite and grassroots entrepreneurship. The State Council
requested that each province allocated a proportion of its budget to enabling
start-ups and fostering the growth of early-stage venture as a mechanism for
its economic further growth.

Public policies from the central enabled the environment for non-state owned
businesses were less restrictive in the Eastern and Coastal regions (i.e.
Guangdong and other provinces) than in Western and Central regions. Privately
owned firms of entrepreneurs managed to seize the business opportunity and
responded to the market demands in an environment favoured to both state-owned companies and the TVEs. Those private ventures had grown rapidly in the Eastern and Coastal regions, indicated by the job creation and wealth generation in a fragile environment. They actually behaved differently from those in a more support environment for businesses, for instance, focusing on a short-term success and being reluctant to invest in long-term projects (Xiao and Ramsden, 2016). It would be logic to expect that the level of entrepreneurship is higher in the Eastern and Coastal regions than in Western and Central regions.

Not surprisingly perhaps, the gap between Guandong and Sichuan provinces in terms of the socio-economic indicators, is reflected in the pattern of SME and entrepreneurship development. Table 2 shows geographical disparities in SMEs development and entrepreneurship between Guangdong and Sichuan, together with indicators that help to describe the gap in terms of the level of economic and social development in these two provinces. It first shows a continued considerable gap in the level of employment in SMEs, for example, a total of 10.85 million jobs in Guangdong combined with a total of 1.95 million jobs in Sichuan in 2007. By 2016, this had increased to 2.17 million jobs in Sichuan whilst in Guandong total SME employment declined to 8.85 million. This is reflected in the average annual rate of decrease of 0.81% compared with a rate of increase of 2.64% in Sichuan. At the same time, it is evident that the significant gap between the two provinces in terms of the number of SMEs employment is slowly narrowing.

Table 2 about here

Overall, our analysis suggests a considerable gap exists in SME development and entrepreneurship between the two provinces, indicated by the number of employees, the share of SMEs’ employees of the total employment, sales turnover, and the proportion of SMEs sales turnover of GDP. Interestingly, we also find that such gaps either are narrowing or have been filled during the last decade.

Turning to the Mass Entrepreneurship and Innovation programme, whilst it is a national programme it is up to provincial and local governments to design local policy initiatives whilst following policy the principles of the call. In the section, we compare the policy responses of the two provinces, paying attention to the
target groups in terms of both people and sector; the methods used to deliver the policy; and the resources available (Acs and Szerb, 2007).

Table 3 suggests that both Guangdong and Sichuan introduced relevant policy initiatives, targeting nascent and existing entrepreneurs. Guangdong focused on local recent graduates and university students with the potential of setting up an innovative business. Existing incubators are encouraged by obtaining government grants and subsidies to offer basic facilities (i.e. the use of office and lab) to graduates and university students free to users. By sharing the incubator building and facilities (i.e. canteen, gym, and social events), graduates and university students gain access to existing entrepreneurs of early-stage high-tech firms to exchange business ideas and information. The incubators also provide business assistances (such as business registration, government grant/loans application, amongst others) to help setting up a business. In contrast, Sichuan paid particular attentions to the migrant worker returnees. Incentives given by local governments included rent subsidies, tax breaks and a range of advisory support.

Both Guangdong and Sichuan support existing entrepreneurs operating their businesses in a high-tech sector. In Guangdong, various government grants and subsidies are available to existing entrepreneurs capable of fast growing their ventures to become market leaders (i.e. measured by the academic degree received, oversee experience, amounts of taxations paid, and patents granted).

Table 3 about here

Guangdong policy initiatives have an industry focus. One priority is to facilitate the modernisation of traditional industries. In Foshan, for example, local government has focused on technological upgrading of its porcelain industry. Porcelain manufacturers have been experiencing problems of recruiting and maintaining skilled labour. The problem is that the number of younger people entering the sector is less than the number retiring. Many younger people see as an unattractive because they perceive their health may be damaged because of poor working conditions. One solution to the problem would be to use robots instead skilled workers. However, these manufacturers have been reluctant to invest in upgrading their production lines, and do not know how to achieve it. Local government working together with an elite university located
in Guangzhou introduced a range of policy instruments to facilitate the industry technology upgrading. This included a specialised incubator as sponsored by the local government and the university to encourage academia with the technological knowledge to start ventures, and provide the technology upgrading services. Moreover, managers from the incubator have brokered collaboration between technological entrepreneurs to the manufacturers. High-tech start-ups that provide technology upgrade services to those manufacturing receive government subsidies to cover the relevant expenses. In other words, these manufacturers upgraded their production lines for free. Furthermore, managers from the incubator helped high-tech start-ups apply for innovation funding provided by the provincial policy initiatives.

In Sichuan, public policies towards the migrant worker returnees paid particular attention to attracting migrant workers to set up businesses in their hometowns or the urban areas near their original neighbourhoods without an industry focus. By offering incentives to migrant work returnees, local government might be able to address one of the major challenges namely: local job creation and financing for increased demand for public services. Actually, the majority of the migrant worker returnees started their businesses in non-agricultural sectors, including manufacturing, catering and accommodation business.

In addition, both provincial and city government to a certain degree are still working to remove institution-based barriers (i.e. simplifying registration procedure and others) to nascent and existing entrepreneurs of private owned businesses regardless an industry sector involved.

Both Guangdong and Sichuan relied on technology business incubators to address the business support needs of pre-start-ups, start-ups and early-stage ventures. Interestingly but not surprisingly, Guangdong is keen on improving the quality of support services offered by existing incubators, whilst Sichuan has put more effort into establishing the kind of new generation incubators that serve start-ups and early stage ventures operating in a specific industry. This is because Guangdong has established more new generation incubator, whereas Sichuan is still catching up. In Guangdong, incubators provide business support (i.e. basic facilities for graduates and university students, training
courses for nascent and existing entrepreneurs, and run entrepreneurship competitions) to graduates and university students. Public money and resources are also available for local organisations to build various platforms (i.e. machinery testing platform, internet finance, entrepreneurship coffee, and others) by which a large number of nascent and existing entrepreneurs of start-ups and early stage firms benefit from. Local government not only provided funding to the selected firms but also encouraged private investors to provide venture capital to businesses by offering financial incentives.

Table 3 about here

Although the economic development needs of Sichuan province appear substantially greater than those in Guangdong the resources available from the public sector are significantly higher in Guandong. This is reflected in the size of the research and development budget, as well as in the proportion of the science and technology budget allocated to R&D and innovation. i.e. Table 4 shows that a much larger amount of the public budget was allocated to R&D and innovation in Guangdong (i.e. RMB 74.3 billion in 2016) compared to that (i.e. RMB 10.11 billion in 2016) in Sichuan. The proportion of the science and technology budget that were allocated to R&D and innovation has also been larger in Guangdong (i.e. 3.8% in 2008 and 5.5% in 2016) than that in Sichuan (i.e. 1.2% in 2008 and 1.3% in 2016) during the last decade.

Table 4 about here

Policies Conclusions and Future Policy Agenda

The analysis of entrepreneurship policy in China has demonstrated the role of both local and provincial policies alongside national policy interests. In this context the Mass Entrepreneurship programme reflects the commitment of national government to national policy objective. Alongside this, the size of China territorially and the inevitable diversity of policy priorities makes it very appropriate for local policy to reflect the particular support needs of firms in the locality.

It is evident that, up to now, the central government plays a key role in designing a formal and systematic entrepreneurship policy to promote entrepreneurial activities in order to grow China’s economy further. Central
government also plays an essential role in getting the policy implemented at provincial and local level through each Ministry’s network with the relevant regional and city government (i.e. the Ministry of Science and Technology (S&T) – provincial Department of S&T – city Department of S&T). Provincial and city governments follow the policy by the central government and design a broad spectrum of entrepreneurship policy initiatives accordingly, although local governments need to integrate the policy instruments to the economic structure, social issues, and local growth. The geographical variations in local SME and entrepreneurial policy initiatives between the Chinese provinces of Guangdong and Sichuan involve a number of key elements. First, Guangdong policy initiatives have paid more attentions to technological entrepreneurs and innovative early-stage ventures with the potential of fast growth, whilst Sichuan policy instruments emphasised migrant worker returnees who are interested in starting business of new firms being set up in general and migrations’ businesses in particular in order to tackle poverty in rural areas. Second, policymakers in Guangdong considered local tradition and pillow industries as an element when designing local policy initiatives promoting entrepreneurship, whilst attracting manufactures from the Eastern and coastal regions by surplus labour supply with low wage rates and use right of lands with low costs seems to play a key role in designing the policy instruments in Sichuan. Policy instruments in Guangdong place a greater emphasis on stimulating higher levels of entrepreneurship, which is relatively new in China as a whole. At the same time, Sichuan put more emphasis on efforts on attracting technological entrepreneurs from overseas and from the more developed Eastern and coastal regions. These findings illustrated give strong support to the need for entrepreneurship policy to be sensitive to local condition.

Entrepreneurship policy initiatives are characterised by selectivity, an emphasis on growth motivation, capacity building, hands-on support, networking, public-private collaboration and the use of performance milestone (Hart, 2003; Autio and Rannikko, 2016). Insufficient internal expertise has limited the capacity of some local governments in China to design and establish local policy initiatives to promote entrepreneurial activities. For instance, a significant number of the policy initiatives in Sichuan simply focus on allocating public funds to individual graduates who have a difficulty in finding a job. This kind of policy initiative aims to solve the unemployment of graduates rather than to promote
entrepreneurial activities easily. In Guangdong, managers from local
government and agency have more experience of designing entrepreneurial
policy initiatives towards entrepreneurial activities and integrate them to the
local resources, and might be better able to operate the entrepreneurial policy
initiatives. Many policy instruments aim to pick “winners” who will receive
public money”.

One issue is that the meaningful impact of the policy initiatives concerned with
the local economic growth are lacking. It demonstrates that much more work
remains to be done in the policy areas to create the optimal conditions for the
emergence of the next generation of entrepreneurial enterprises, and to
ensure access to the necessary resources, skills, and assistances, and business
entry and growth opportunities (Lundstrom and Stevenson, 2005).

**Future priorities for entrepreneurship policies**

We also find the lack of evidence to measure the effectiveness of
towards entrepreneurial activities in the two selected provinces and in China
as a whole. It is challenging to examine the effectiveness of the local policy
relevant to entrepreneurial activities firstly because of the lack of data from
the government statistic services at all the levels and secondly because of
short run led policies (Autio and Rannikko, 2016). In China, rapid changes to
local policy instruments make it even more difficult to measure the meaningful
impact on economic growth that may take some years to appear. All levels of
policymakers seem motivated to get the policy initiatives launched, but seem
yet to take the meaningful impacts seriously. Perhaps only a handful of high-
growth policies have along enough track record for meaningful impact.

Participation in such initiatives is subject to double selection: only some new
ventures self-select to apply for such initiatives, and not all applicants qualify.
The implication for all the levels of policymakers is that designing
entrepreneurship policy initiatives should consider the measures of meaningful
impacts.

Policy initiatives aiming to towards entrepreneurial activities might also create
downsides Effects. For instance, policy instruments on graduates that aim to
encourage graduates with a difficulty in finding a job to start their own
business don’t seem a good policy (Shane, 2009). It is clear that the policy
instruments are keen on tackling the unemployment of graduates rather than
promoting entrepreneurial activities. Meanwhile, nascent entrepreneurs with this talents and motivation might not be qualified to obtain government grants or subsidies for starting a business. A complex of institutional set-up, involving multiple institutions at both national and local levels of government, makes it difficult to identify decision makers, and hence for companies to anticipate decisions. Existing entrepreneurial policies often lack of the details, incomplete, ambiguous, and subject to unpredictable continuous revisions.

This research provides a more comprehensive picture of the entrepreneurial policy efforts in China by identifying the marked differences in the entrepreneurship policy orientations of provincial and local governments. Overall, policy has a clear role to play in developing regional and local institutional infrastructures and legal framework, which are needed to create a more favourable environment for SME development and entrepreneurship in the areas. Policy also has a role to play in developing regional and local physical and social infrastructures, which are needed to underpin and support entrepreneurial activities in the areas. In Sichuan, policy to promote entrepreneurship and SME development acts as a strategy mainly for creating employment to absorb millions of new graduate entrants at an annual basis and rural migrant returnees. Whilst in Guangdong, policy to promote entrepreneurship and SME development is a strategy mainly for building up the indigenous capacity for innovation and technology development in Guangdong. In order to achieve a high level of policy integration and synergy with other aspects of local development, local authorities should consider more the specific context conditions when learning ‘best practices’ from other regions and coordinating entrepreneurship policy. Ongoing research in this area could assess the meaningful impact of these policy initiatives on job creations and real economic growth in a region.

Reference


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