

# China – a focus on local policy

## Regional differences in the policy initiatives for entrepreneurial activities

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### 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;

34 Zhu and Sanderson, 2009). A well-organised entrepreneurship policy did not  
35 exist until 2015. Of course, entrepreneurship policy is not the same as SME  
36 policy. Whereas SME policy is concerned with existing firms, entrepreneurship  
37 policy focuses on the creation of new firms and growth of existing ones.  
38 Although SME and entrepreneurship have been responsible for much of China's  
39 rapid economic growth over the last four decades, there does not appear to be  
40 a strong relationship between the rapid growth of SMEs and public policies  
41 towards SME and entrepreneurship (Xiao and North, 2012; Atherton and  
42 Smallbone, 2013). Nevertheless, government intervention has been the  
43 constant key in transforming the business environment over this period. The  
44 focus of public policies towards business has changed dramatically during the  
45 last 40 years. Initially, public policy at the central level emphasised on supporting  
46 and reforming state-owned companies. In China's constitution, SMEs and the  
47 private sector were excluded from the mainstream of economic activity until the  
48 late 1990s. Town and village owned enterprises (TVEs) were created and grew  
49 rapidly supported by town and village governments directly and indirectly  
50 during the 1980s and 1990s. However, from the early 2000s, local governments  
51 were no longer allowed to own and operate TVEs, and more generally  
52 government officials were no longer allowed run their own private firms.

53 An entrepreneurship policy framework has formally emerged since 2015,  
54 aiming at creating new growth engine for China's economies. A shift of public  
55 policies from an emphasis on the existing stock of enterprises to a much  
56 broader focus on both nascent and existing entrepreneurs has been made and  
57 over a relatively short period of 11 years. Changes made to the public policies  
58 include a greater emphasis on both "nascent" and existing entrepreneurs  
59 rather than existing stock of firms, and greater focus on the entrepreneurial  
60 process from preparing, starting, surviving, and fast growing a venture. The  
61 attitudes of government officials and policymakers at different levels towards  
62 entrepreneurs and entrepreneurial activities has become more positive over  
63 time, helping create a positive social image of entrepreneurs and promote  
64 entrepreneurial culture. The quality of entrepreneurship across the nation  
65 improves over time; with the Eastern and Coastal regions have higher level of  
66 entrepreneurial activities compared to others. Nevertheless, the perception of  
67 cultural values and social norms towards entrepreneurship therefore becomes  
68 more encouraging.

69 Entrepreneurship policies are more complex in China than that in other  
70 contexts. The domain of entrepreneurial policy is larger in China than in  
71 countries like the USA and European countries. It encompasses not only  
72 activities at several levels of governments and different industry sectors (Hart  
73 2003), but it is embedded in the institutional transitions and social issues. One  
74 of the objectives in developing entrepreneurship policy initiatives at the  
75 national level in China is to use them as a means to serve the institutional  
76 transitions.

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

### 87 **Spatial Variations in Entrepreneurship**

88 China is characterised by large geographical disparities in economic  
89 development. (Xiao and Ritchie, 2009). As a consequence, public policy must at  
90 least be sensitive and flexible enough to accommodate these regional  
91 differences and in some cases contribute to narrowing the gap. Specifically the  
92 development of entrepreneurship in the Western and Central areas is much  
93 less that it is the Eastern and coastal region (Lundstrom and Stevenson, 2005).  
94 Such large geographic disparities suggest that the challenges that subnational  
95 economies in China face vary enormously. Entrepreneurship framework  
96 conditions, entrepreneurship productivity, and entrepreneurial culture reflect  
97 this variation. Thus, it might be expected that the kind of support that public  
98 policies give directly to new venture creation, innovative young ventures, and  
99 specific industries to differ according to the economic development of a host  
100 region. We might also expect that the kind of support that public policies give  
101 directly to the intermediates (i.e. business incubators or technology business  
102 incubators) for the development and commercialisation of technology-based

103 firms (i.e. incubated firms) to vary according to the level of economic  
104 development of a host region (Folta et al., 2006; Fritsch and Slavtchev, 2011).  
105 Regions with more advanced economies and more supportive infrastructure  
106 are likely to have an advantage over others lacking in these respects (Xiao and  
107 North, 2018). However, we know little about how entrepreneurship policy  
108 incorporates the local, provincial, and country level, and how public policies  
109 relevant to the small and medium-size enterprise (SME) development and  
110 entrepreneurship actually operate and work in China.

### 111 **Local Policy and Practice**

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

117 Table 1 about here

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

130 Figure 1 about here

131 Public policies from the central enabled the environment for non-state owned  
132 businesses were less restrictive in the Eastern and Coastal regions (i.e.  
133 Guangdong and other provinces) than in Western and Central regions. Privately  
134 owned firms of entrepreneurs managed to seize the business opportunity and

135 responded to the market demands in an environment favoured to both state-  
136 owned companies and the TVEs. Those private ventures had grown rapidly in  
137 the Eastern and Coastal regions, indicated by the job creation and wealth  
138 generation in a fragile environment. They actually behaved differently from  
139 those in a more support environment for businesses, for instance, focusing on a  
140 short-term success and being reluctant to invest in long-term projects (Xiao and  
141 Ramsden, 2016). It would be logic to expect that the level of entrepreneurship  
142 is higher in the Eastern and Coastal regions than in Western and Central regions.

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

157 Table 2 about here

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

164 Turning to the Mass Entrepreneurship and Innovation programme, whilst it is a  
165 national programme it is up to provincial and local governments to design local  
166 policy initiatives whilst following policy the principles of the call. In the section,  
167 we compare the policy responses of the two provinces, paying attention to the

168 target groups in terms of both people and sector; the methods used to deliver  
169 the policy; and the resources available (Acs and Szerb, 2007).

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

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

189 Table 3 about here

190 Guangdong policy initiatives have an industry focus. One priority is to facilitate  
191 the modernisation of traditional industries. In Foshan, for example, local  
192 government has focused on technological upgrading of its porcelain industry.  
193 Porcelain manufacturers have been experiencing problems of recruiting and  
194 maintaining skilled labour. The problem is that the number of younger people  
195 entering the sector is less than the number retiring. Many younger people see  
196 as an unattractive because they perceive their health may be damaged  
197 because of poor working conditions. One solution to the problem would be to  
198 use robots instead skilled workers. However, these manufacturers have been  
199 reluctant to invest in upgrading their production lines, and do not know how to  
200 achieve it. Local government working together with an elite university located

201 in Guangzhou introduced a range of policy instruments to facilitate the  
202 industry technology upgrading. This included a specialised incubator as  
203 sponsored by the local government and the university to encourage academia  
204 with the technological knowledge to start ventures, and provide the  
205 technology upgrading services. Moreover, managers from the incubator have  
206 brokered collaboration between technological entrepreneurs to the  
207 manufacturers. High-tech start-ups that provide technology upgrade services  
208 to those manufacturing receive government subsidies to cover the relevant  
209 expenses. In other words, these manufacturers upgraded their production  
210 lines for free. Furthermore, managers from the incubator helped high-tech  
211 start-ups apply for innovation funding provided by the provincial policy  
212 initiatives.

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

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

226 Both Guangdong and Sichuan relied on technology business incubators to  
227 address the business support needs of pre-start-ups, start-ups and early-stage  
228 ventures. Interestingly but not surprisingly, Guangdong is keen on improving  
229 the quality of support services offered by existing incubators, whilst Sichuan  
230 has put more effort into establishing the kind of new generation incubators  
231 that serve start-ups and early stage ventures operating in a specific industry.  
232 This is because Guangdong has established more new generation incubator,  
233 whereas Sichuan is still catching up. In Guangdong, incubators provide business  
234 support (i.e. basic facilities for graduates and university students, training

235 courses for nascent and existing entrepreneurs, and run entrepreneurship  
236 competitions) to graduates and university students. Public money and  
237 resources are also available for local organisations to build various platforms  
238 (i.e. machinery testing platform, internet finance, entrepreneurship coffee, and  
239 others) by which a large number of nascent and existing entrepreneurs of  
240 start-ups and early stage firms benefit from. Local government not only  
241 provided funding to the selected firms but also encouraged private investors to  
242 provide venture capital to businesses by offering financial incentives.

243 Table 3 about here

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

255 Table 4 about here

## 256 **Policies Conclusions and Future Policy Agenda**

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

264 It is evident that, up to now, the central government plays a key role in  
265 designing a formal and systematic entrepreneurship policy to promote  
266 entrepreneurial activities in order to grow China's economy further. Central



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

294 Entrepreneurship policy initiatives are characterised by selectivity, an emphasis  
295 on growth motivation, capacity building, hands-on support, networking, public-  
296 private collaboration and the use of performance milestone (Hart, 2003; Autio  
297 and Rannikko, 2016). Insufficient internal expertise has limited the capacity of  
298 some local governments in China to design and establish local policy initiatives  
299 to promote entrepreneurial activities. For instance, a significant number of the  
300 policy initiatives in Sichuan simply focus on allocating public funds to individual  
301 graduates who have a difficulty in finding a job. This kind of policy initiative  
302 aims to solve the unemployment of graduates rather than to promote

303 entrepreneurial activities easily. In Guangdong, managers from local  
304 government and agency have more experience of designing entrepreneurial  
305 policy initiatives towards entrepreneurial activities and integrate them to the  
306 local resources, and might be better able to operate the entrepreneurial policy  
307 initiatives. Many policy instruments aim to pick “winners” who will receive  
308 public money”.

309

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

316

### 317 ***Future priorities for entrepreneurship policies***

318

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

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

335 Policy initiatives aiming to towards entrepreneurial activities might also create  
336 downsides Effects. For instance, policy instruments on graduates that aim to  
337 encourage graduates with a difficulty in finding a job to start their own  
338 business don't seem a good policy (Shane, 2009). It is clear that the policy  
339 instruments are keen on tackling the unemployment of graduates rather than

340 promoting entrepreneurial activities. Meanwhile, nascent entrepreneurs with  
341 this talents and motivation might not be qualified to obtain government grants  
342 or subsidies for starting a business. A complex of institutional set-up, involving  
343 multiple institutions at both national and local levels of government, makes it  
344 difficult to identify decision makers, and hence for companies to anticipant  
345 decisions. Existing entrepreneurial policies often lack of the details,  
346 incomplete, ambiguous, and subject to unpredictable continuous revisions.

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

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