

THEME 01

A new generation of Chinese entrepreneurs

CHINA

GENERATIONS

ENTREPRENEURSHIP

It has been a little under forty years ago that Deng Xiaoping opened China's economy to the world. Since then, China has risen as an economic superpower, driven by its buoying private sector and renewed entrepreneurial spirit. China's future and digital economy will be driven by a fourth wave of Chinese entrepreneurs, which have differing ambitions and values from previous generations and will come to play an increasingly important role in our daily lives and economies.

Our observations

- China's Bytedance has become the world's largest unicorn, overtaking Uber, which is followed by its Chinese rival Didi Chuxing. Ant Financial, Alibaba's financial arm, that grew out of its original Alipay business, remains the world's most highly valued [private company](#) at \$150 billion, more than double the size of investment bank Goldman Sachs. Alibaba had the [largest global IPO](#) back in 2014, raising \$21.8 billion, followed by the Agricultural Bank of China in 2010 (\$19.2 billion) and Industrial and Commercial Bank of China in 2007 (\$19.1 billion). China is now home to 120 of the 500 [largest companies by market capitalization](#), just behind the U.S. (126) but ahead of Japan (52), and up from [25](#) a decade ago.
- Silicon Valley remained the world's leading startup hub between 2012 and 2018. However, Beijing and Shanghai are poised to become the [global tech hubs](#) given the growth of their unicorns, mega-rounds of VC funding and large IPOs in recent years. For example, Beijing now has double the number of unicorns that New York has. Five out of the ten [apps that generated the most revenue](#) on Apple devices in 2018 were Chinese: QQ, Youku, Kwai, iQiyi and Tencent Video.
- Looking at [data](#) of the 311 unicorns in the world (as of January 2019), we find China has 76 unicorns, just a little more than half of the 151 American unicorns. However, the total valuation of China's unicorn universe is \$860.3 billion compared to \$787.3 billion in the U.S., meaning that Chinese unicorns are almost two-thirds larger than their U.S. counterparts.
- Recently, the founders of Alibaba, Tencent and Baidu were [honored](#) by Chinese state media for their contributions to China's reform and opening-up. Jack Ma, China's wealthiest person and founder of Alibaba Group, has been a member of the [Communist Party of China](#) since the 1980s, while Pony Ma, Tencent's founder, is a member of China's [National People's Congress](#) (i.e. China's Parliament) and Robin Li, Baidu's founder, is a member of China's [People's Political Consultative Conference](#) (i.e. China's political advisory body).
- Four decades ago, the Third Plenum of the 11th Central Committee of the Chinese Communist Party on December 18, 1978, was the beginning of the era of pragmatic reforms and economic opening under Deng Xiaoping. Deng allowed the first market mechanics and foreign companies into China, and boosted his Four Modernizations (in agriculture, industry, national defense, and science and technology) to revitalize China as a modern and prosperous society. The results have been nothing but spectacular in the past four decades: 800 million Chinese were lifted out of [poverty](#); China's [economy](#) grew 80 times, its [GDP per capita](#) 50 times and its [exports](#) almost 350 times; China now has more than 100 [cities](#) with more than 1 million citizens and has an 800 million [urban population](#); China is the largest [trading partner](#) for 124 countries in the world and has more foreign exchange reserves than the following six countries combined.
- In his book [China's Disruptors](#) (2015), Edward Tse shows how the private sector is assuming a larger role in China's economy and society. According to Tse, Chinese entrepreneurs have three core values in common: pride and the willingness to make China prosper after the Century of Humiliation; the ambition to improve the daily lives of hundreds of millions of Chinese; and a Confucian work ethic and positive conception of the state to create the conditions for order and stability.



Connecting the dots

During the past four decades, China's economy and society saw unprecedented growth and transformation. When Mao died in 1976, there were no private enterprises (*saying qiye*), as they were only approved officially in 1988 (private enterprises were *defined* as for-profit organizations with more than eight people employed), and China's economy was exclusively dominated by large state-owned enterprises (SOEs). Fast-forward three decades, and China's *private sector* now accounts for almost two-thirds of China's GDP and 60% of Chinese fixed-asset and outbound investments, 70% of new products in China and more than 90% of new jobs were created by private businesses in 2017. As China's state is in retreat in its economy, China's private sector and entrepreneurs are driving China's economic transformation. But within this movement, we can distinguish between several generations of Chinese private sector entrepreneurs.

Chinese private companies existed before 1988, but were small individually or family-owned companies (*getihu*) that were mostly active in local agricultural retail. China was then a totally closed and centrally planned economy, and economic activity and entrepreneurship were considered "bourgeois activity" by Mao (the Cultural Revolution was partly an attempt to cast out entrepreneurship), hence strictly forbidden. As a result, economic as well as daily life was dominated by mammoth Chinese SOEs: these companies and their local working units (*danwei*) provided housing, schooling, healthcare, and even authorized marriages and divorces. This changed after 1988, when Chinese private companies were officially allowed to hire more than eight people. This second generation of Chinese private companies jumped into China's nascent industrial export economy, which was developing in Special Economic Zones (SEZs) in coastal China under Deng's "*Four Modernizations*". This provided the first Chinese companies with significant scale and businesses to export and operate on a global scale. As China became the "factory of the world", these were the first Chinese companies to reach Western consumers, such as Haier, Huawei, Lenovo, Fosun. After a sharp rise in inflation and China's pro-democracy Tiananmen protests, China's leadership wanted to roll back Deng's reforms at the end of the 1980s. In response, Deng went on his famous "southern tour" in 1992, in which he called on officials to resume their policies of mar-

ket liberalization and opening up China, unleashing a new wave of entrepreneurial energy. This move coincided with the nascent *digital revolution* and China's large investments in its digital infrastructure in the 1990s. Boosted by China's accession to the World Trade Organization (WTO) in 2001, these companies ventured into businesses where SOEs had never gone, and leapfrogged China's development by creating whole new markets. China's BAT (Baidu, Alibaba, Tencent) and other digital companies (e.g. JD, Sina Corp) come from this generation of entrepreneurs. Interestingly, these founders all experienced in their formative years China's government boosting its economy, as well as laying the foundation for China's digital ecosystem, hence they are willing to cooperate with the state to develop China's economy.

But now, a new generation of Chinese entrepreneurs is emerging at a crucial time, considering what's ahead in the coming years. Their new companies will have to execute China's economic transformation: it will have to transform its investment- and export-led model into an innovation- and consumption-driven one to circumvent the *middle-income trap*. However, this last generation is different from previous generations of Chinese entrepreneurs. First, these people have had no formative experience of the horrors and poverty during Mao's reign, hence are possibly less willing to cooperate with the Chinese state. They might be more willing to attract foreign talent and partnerships and to boost their knowledge and expertise, and innovate without accounting for all possible political consequences. Furthermore, given that these Chinese have grown up under China's one-child policy since 1979 and in the wealth of modern and urban China, they may have a more liberal and less conformist predisposition (called the "*Little Emperor Syndrome*"). As such, they might value competition over collaboration and individual gains over collective prosperity. Lastly, these entrepreneurs are increasingly on a higher level of the Maslow pyramid, by appealing to *post-material values* under China's urban middle class. As a proxy, Chinese startups are much more concentrated in retail, social media, education and healthcare than the "older" Chinese conglomerates that are mostly in industrials, financials and commodities. As such, China's economic future and quest for innovation will be shaped by this generation of Chinese entrepreneurs.

Implications

- Chinese businesses are already becoming a standard, as reflected in the rise of large Chinese (export) companies and businesses. Although these are mostly in the B2B domain, China's consumer might also become a standard, as China's entrepreneurs are developing applications and devices that target the consumer. Hence, as China will *pass* the U.S. as the largest economy in the world in the foreseeable future (it already *has* in PPP terms), the world might experience an emerging Chinese consumer culture akin to post-war *Americanization*.
- The close relationship between China's central government and China's private sector, something we have called "*Yellow River Capitalism*" before, might inhibit consumer adoption of Chinese applications and technology across the world over privacy and security concerns. This is already happening in the B2B domain, such as with Huawei's 5G telecom equipment.
- China's economic development trajectory is underpinned by its government-led "*Made in China 2025 plan*", and China's development by the "Xi Jinping Thought" in general. During the 40th anniversary of China's Reform and Opening Up campaign, President Xi Jinping said China would stick to its *policy agenda*, despite pressure from the U.S. and others to allow more competition in its economic system and reduce support for state industry. Instead, Xi reiterated the need for the Communist Party to exercise leadership and control over all aspects of the country's development. Indeed, *China's state sector* has grown faster in the past two years than its private sector (a process called *guojin mintu*: the state advances, the private retreats), possibly reflecting a re-evaluation of China's government and its relationship with Chinese entrepreneurs.