

# Chinese versus European entrepreneurship



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## Chinese versus European entrepreneurship





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## The Symbolism of the Center

Within the unfathomable solitude of the world, humanity is incapable of escaping the magical power wielded by the symbolism of the center. From the moment we each realize we don't know exactly where it is we come from, it's only logical we try desperately to connect with an afterlife that justifies our existence. Mircea Eliade summed up the architectural symbolism of the Center by pointing out that all cultures search for the Mountain or Sacred Temple that serves as Axis Mundi, the point where heaven, earth, and hell converge. The prevailing idea seems to be that if we can locate ourselves in the center, we can connect with the divine and will be saved, or at the very least we can mitigate our loneliness. This idea has manifested itself in various ways. In the West, there was a time when the Christian temple was a representation of the universe (imago mundi). In the East, the example of China is perhaps the best known: in Mandarin it is known as the Country of the Center (中国 the first character, zhōng (中) means "center", and guó (国) means "country").

While the same could be said of other eras, today we are witnessing a fierce struggle for control of the center: the trade war between China and the United States, observed by a perplexed Europe, unsure where it stands. It's worth noting



*The prevailing idea seems to be that if we can locate ourselves in the center, we can connect with the divine and will be saved, or at the very least we can mitigate our loneliness.*

the role that the historian, Peter Frankopan, provides in *The New Silk Roads* to the countries of the Silk Road in the new world order, cognizant nevertheless of China's leading position: "I wanted to explain that however traumatic or comical political life appears to be in the age of Brexit, European politics or Trump, it is the countries of the Silk Roads that really matter in the twenty-first century."

IE China Center's contribution to that explanation is through preparing reports, case studies on companies and organizing events on China to help understand the new dynamics of the world economy and how they can be addressed from the point of view of teaching the skills of management, the primary vocation of IE University. We hope that our first report: *Chinese vs European Entrepreneurship: A Comparison* will contribute to a better understanding of an activity that is undoubtedly one of the pillars of all economies.

Returning to the solitude I alluded to initially, the Greeks believed that Zeus released two eagles at either end of the world, East and West, and that a sacred stone would be erected, the omphalos, or navel of the world, wherever they met that would serve as a way to communicate with the gods. Perhaps the time has come to start acting differently and instead of selfishly locating the center where best it suits us, we might consider, for example, that the center is the planet itself. Perhaps in this way we could start to address important causes such as sustainability, energy resources and the animal world differently. Perhaps. But so far, there's no sign of anything taking shape (八字还没一撇 bāzì hái méi yī piē).

**BIN MA** / Academic Director of IE China Center

## Chinese vs European entrepreneurship: a comparison



*In recent years, China and the European Union have recognized the need to adapt their respective economic growth models, a process within which entrepreneurs are expected to play a key role in developing sustainable economic growth, as well as creating employment. In response, Beijing and Brussels have begun implementing policies and guidelines to further support innovation and entrepreneurship.*

The growth of entrepreneurship in the Chinese private sector is already leading to technological innovation and greater productivity, which is helping to reduce the workforce bottleneck challenge. In turn, greater innovation is also making China more competitive and less dependent on the knowledge and technology of traditional Western trading partners such as the European Union and the United States.

Promoting entrepreneurship in Europe has been a core objective of the European Union ever since the Lisbon European Council decided in March 2000 to improve the EU's performance in the areas of employment, economic reform and social cohesion.

Given the current emphasis on the importance of entrepreneurship in both China and the European Union, we developed an academic interest in how entrepreneurship contributes to economic growth, which we began by answering the question of how entrepreneurship operates similarly and/or differently in Europe and China. Furthermore, it is also important to take into account the human dimension so as to better understand the phenomenon of entrepreneurship. To do so, we conducted field and online surveys targeting European and Chinese entrepreneurs in April and May of 2019. Eventually, we received 104 valid responses from China and 105 from Europe. The subjects of both sample groups are either the founder or a core member of their new venture teams. This report presents the findings of our study.

# 1. COMPARING ENTREPRENEURS

## 1.1 Demographics

Our study compared two sample groups of entrepreneurs, based on their age (Figure 1), gender (Figure 2), education (Figure 3 and 4) and previous entrepreneurial experiences (Figure 5).

**Age and education:** we found that European entrepreneurs are significantly younger ( $p < .001$ ) than their Chinese counterparts. One of the likely explanations for this is education: in general, Chinese entrepreneurs spend more years studying at graduate level. However, European entrepreneurs have more educational experience outside their own country than their Chinese counterparts ( $p < .05$ ).

**Gender:** We found that 25% of Chinese entrepreneurs are female, compared to 18% in Europe.

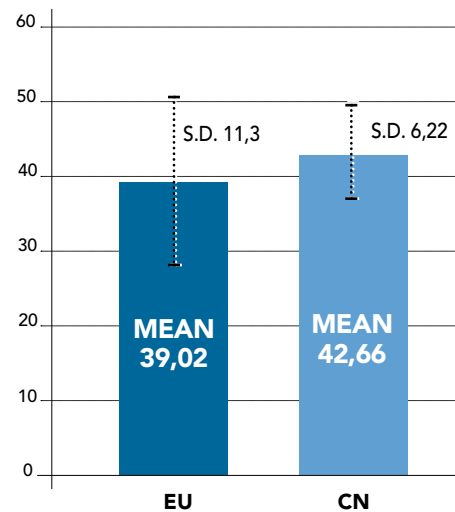
One possible explanation for China's comparative gender diversity advantage among entrepreneurs might be found in the historical emphasis on equality within the Communist system; another worth exploring is that China lags behind Europe in some aspects of development, creating financial pressure on Chinese families within which women have to work on more equal terms with men.

While there are relatively more female entrepreneurs in China than in Europe, there is clearly significant room for improvement in gender diversity in both economies. For example, the European Social Fund is working to support entrepreneurs through its financial and business support services and is assisting female entrepreneurs who are interested in starting their own businesses. Similar initiatives have also been launched recently in China with the aim of providing better social networks and re-

sources for female entrepreneurs. In any event, the gender difference found in both samples calls for more research on this issue to improve our knowledge of the roles of cultural, political and historical factors relating to diversity and entrepreneurship.

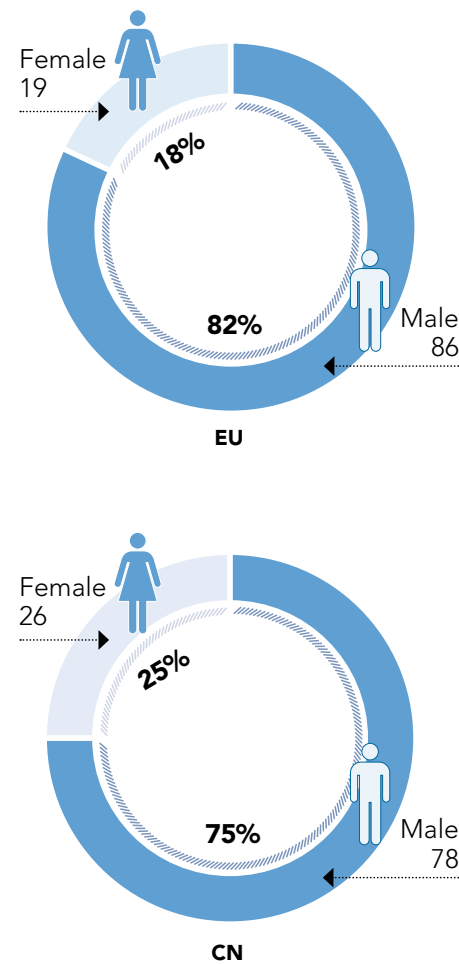
**Previous experience:** similar numbers of the Chinese and European entrepreneurs we sampled were already on to their third or fourth business venture. As with other aspects of management, entrepreneurship requires the knowledge and skills that can usually only be acquired through years of practice. At the same time, our attention was drawn to an equally important aspect of entrepreneurship that may have been overlooked: the role of business education.

■ AGE (Figure 1)

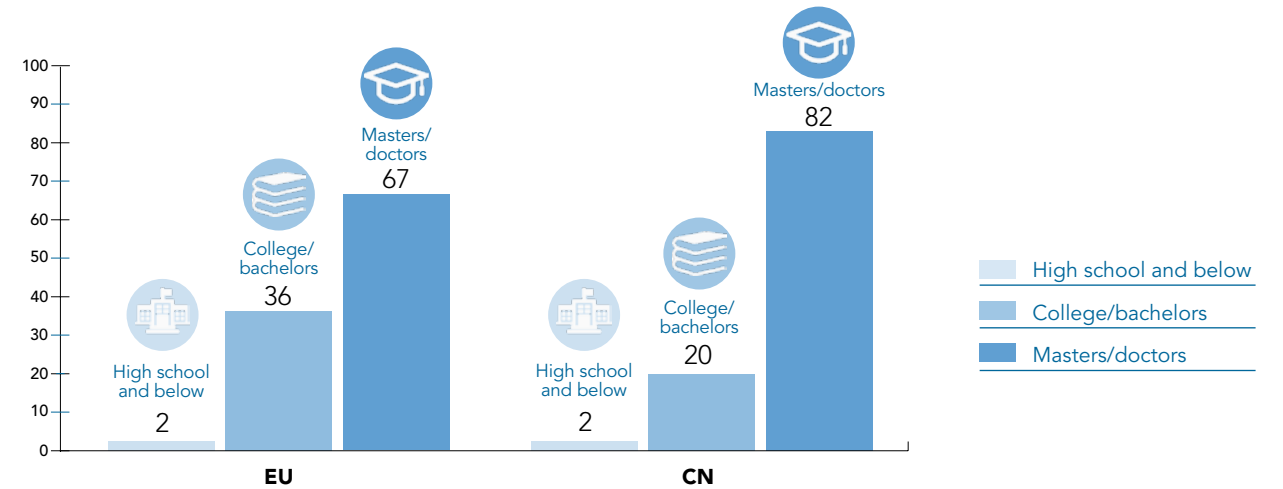


Difference significant at .001 level

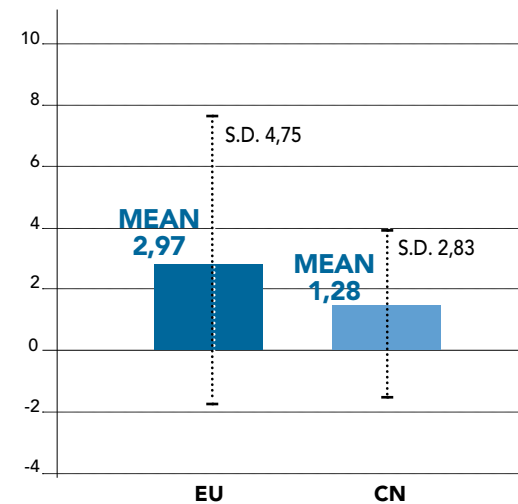
■ GENDER (Figure 2)



■ EDUCATION (Figure 3)

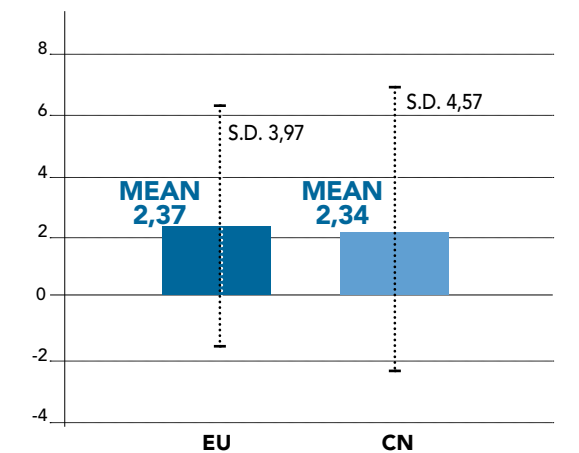


■ EDUCATION ABROAD. (Figure 4)



Difference significant at .05 level

■ NEW VENTURE EXPERIENCE (Figure 5)



Difference non-significant



## 1.2 Professional and private life

As expected, we found in both sample groups that Chinese and EU entrepreneurs shared a relatively high level of transformational leadership behavior (Figure 6). This further supports the literature showing that transformational leadership is critical for innovation-related performance.

Notably, both sample groups share a relatively low level of burnout (Figure 7). This might be explained by the fact that while entrepreneurs typically work under

enormous stress, they are highly motivated and are passionate about their work. These psychological resources serve as their buffering mechanism during stressful work periods.

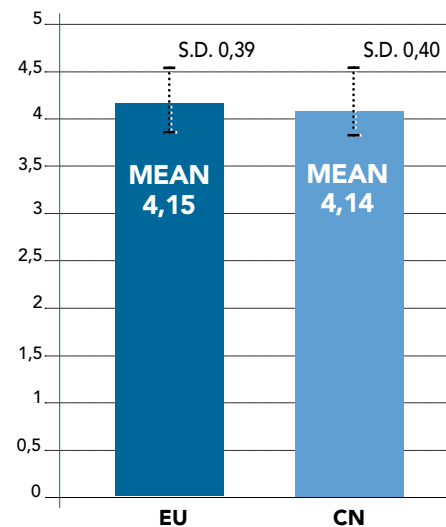
At the same time, in the case of both sample groups we found a moderate level of family support for their work (Figure 8).

In the Chinese sample group, family support was associated with the entrepreneur's transformational leadership behaviors ( $r = .30, p < .01$ ), while this was not the

case with the European data. Possible explanations might reside in cultural differences such as more ambiguous boundaries between the private and professional lives of Chinese entrepreneurs.

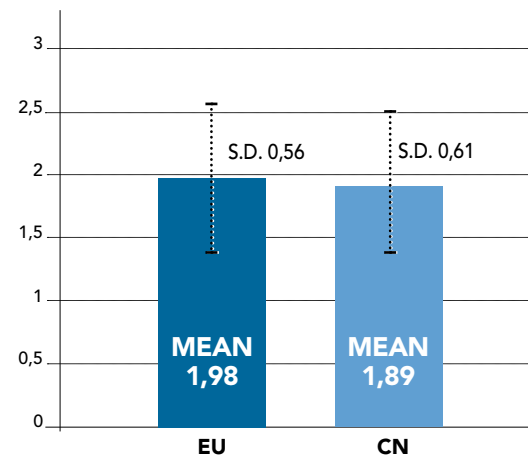
Finally, our data shows that Chinese entrepreneurs sleep less than their European peers on both indicators of, 1) the number of hours they had slept the previous night ( $p < .1$ ; Figure 9) and, 2) the average number of hours of sleep per night ( $p < .05$ ; Figure 10). This would seem to confirm that the Chinese are following the oft-cited long working hours found in Silicon Valley startups.

■ TRANSFORMATIONAL LEADERSHIP (1-5) (Figure 6)



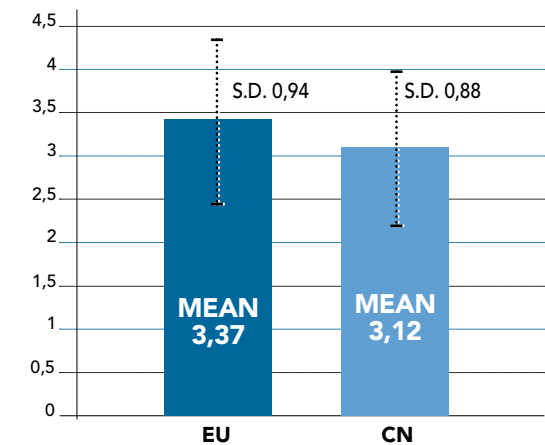
Difference non-significant

■ BURNOUT (1-5) (Figure 7)



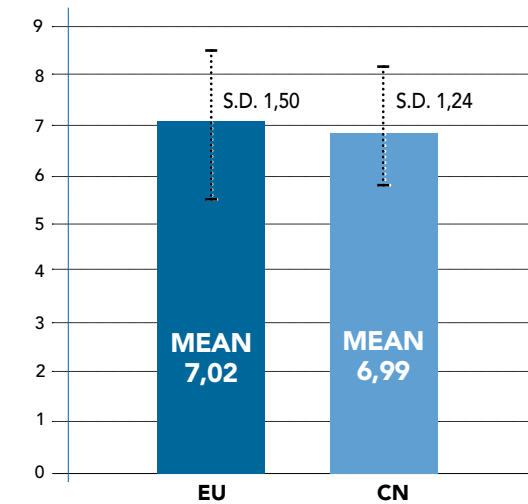
Difference non-significant

■ FAMILY SUPPORT (1-5) (Figure 8)



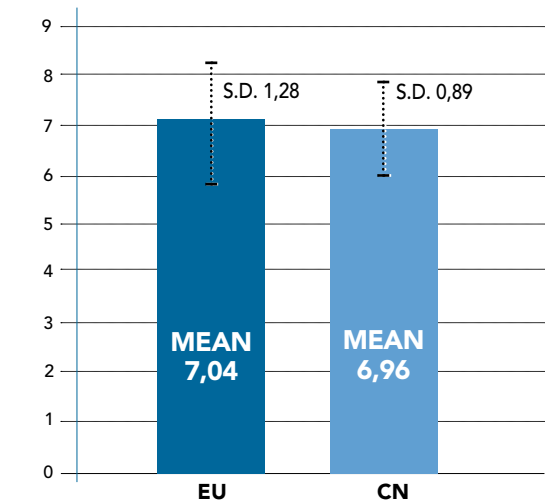
Difference non-significant

■ SLEEP LAST NIGHT (# OF HOURS) (Figure 9)



Difference significant at .1 level

■ SLEEP ON AVERAGE (# OF HOURS) (Figure 10)



Difference significant at .05 level



## 2. COMPARING NEW VENTURES

### 2.1 Location and ownership

As shown on the map (Figure 11), our sample covers 31 cities and provinces in China and 21 cities and countries in the EU.



In terms of ownership and source of capital (Figure 12), new ventures in China tend to be self-owned private enterprises, of which there is a far higher number than in Europe. This is surprising in the context of the widely held perception that the government is the main investor in Chinese startups. One possible explanation lies in cultural differences such as the risk aversion of Chinese entrepreneurs, who tend to avoid external capital that could reduce their control over the company.

At the same time, credit standards in China are still relatively high for small businesses, while state-owned banks have traditionally given preference to state-owned enterprises and partially state-backed companies. To address these concerns, the Chinese government has reiterated its commitment to facilitating access to credit for private entrepreneurs and to create a more investor-friendly lending environment, the effects of which are expected to be seen in the near future.



■ NATURE OF COMPANY

(Figure 12)

	Private enterprise (self-owned capital investment)	Private enterprises (with VC or PE financial support)	State-owned enterprises, publicly funded	Foreign-funded enterprise
<b>EU</b>	57	17	10	21
<b>CN</b>	75	18	3	8

## 2.2 Employee profile

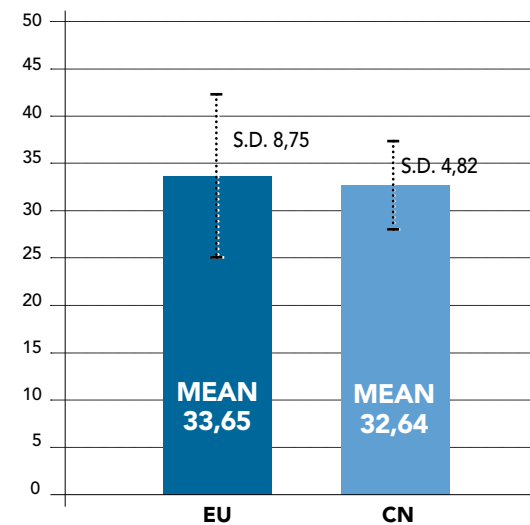
Generally speaking, Chinese enterprises employ significantly younger workforces than their European counterparts ( $p < .01$ ; Figure 13): while the Chinese labor market is aging, it is still younger than Europe's.

Regarding the number of employees with a college degree, the two samples showed no significant difference (Figure 14), with a relatively high rate of about 80%.



■ EMPLOYEE AVERAGE AGE

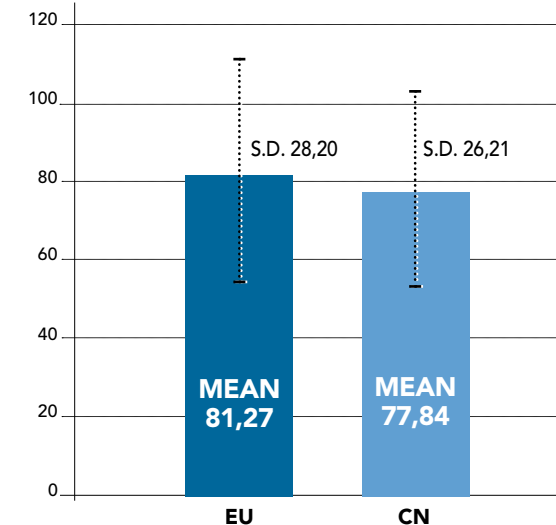
(Figure 13)



Difference significant at .01 level

■ EMPLOYEE COLLEGE EDUCATION RATE (%)

(Figure 14)



Difference non-significant

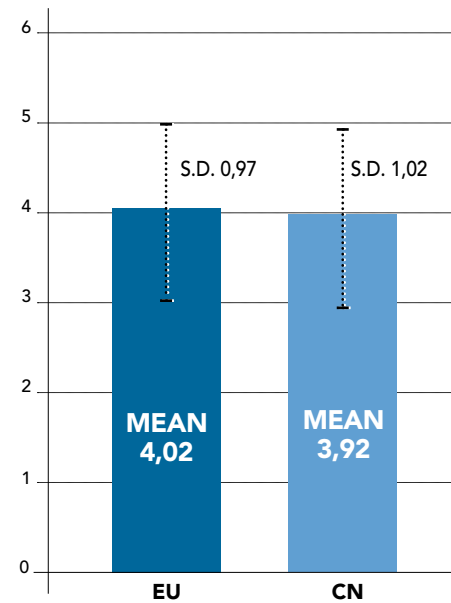


### 2.3 Industry, customers, and market growth

Entrepreneurs in both sample groups agreed that they face strong competition from other companies (Figure 15).

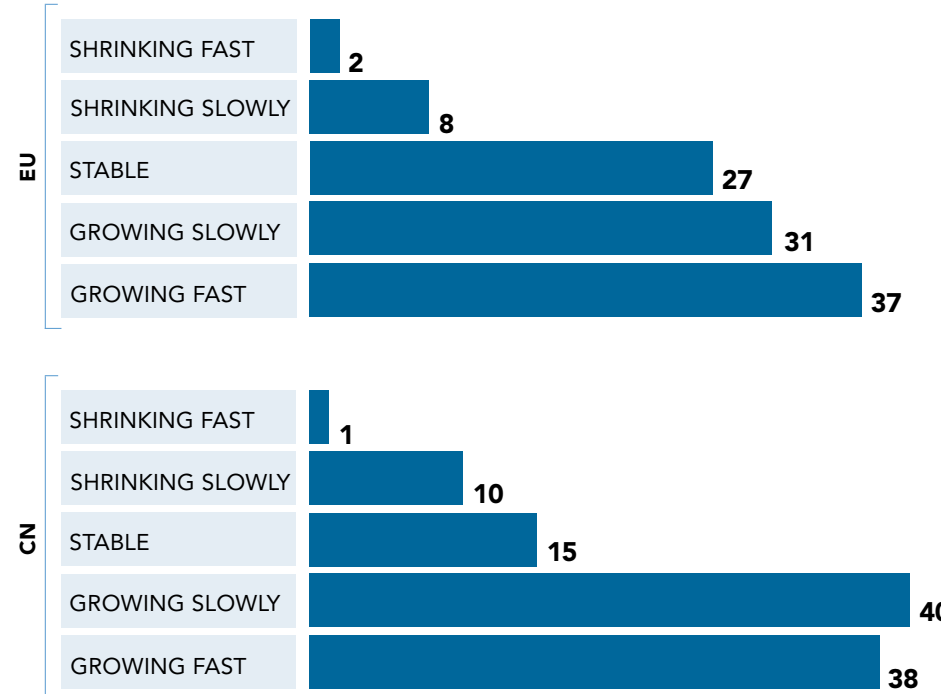
What sets the two apart is that the European sample set up new ventures in more stable markets, while Chinese entrepreneurs set up in markets with a faster growth. This may be due to the larger size of a fast-growing Chinese internal market.

■ COMPETITION (1-5) (Figure 15)



Difference non-significant

■ GROWTH OF MARKET (Figure 16)



■ CUSTOMER (Figure 17)

	Niche population	Regional population	General population	Small companies as customers	Big companies as customers
EU	20	11	32	22	20
CN	14	21	18	17	34

■ INDUSTRY CATEGORY (Figure 18)

	Internet-related	New materials related	New energy related	Others
EU	36	6	6	57
CN	55	10	3	36

Another difference we found is regarding the customer groups of the two samples (Figure 17): customer distribution shows that European enterprises tend to serve individuals, while Chinese enterprises are looking to provide services to companies.

Finally, European new ventures still tend to focus on more traditional sectors and industries, while a larger number of Chinese companies target the internet and new-material related areas (Figure 18).





### 3. CONCLUSIONS

Interested in how entrepreneurs contribute to their countries' economic growth by setting up new ventures, we launched this study as part of an initial attempt to look for findings of academic and practical value.

In the near future, we intend to further explore the relationship between entrepreneurs and start-ups within their respective regions as well as the global economy.

The similarities we found between European and Chinese entrepreneurs, such as their leadership styles, burnout experiences and even the role of family support, show some evidence of the influence of increasingly standardized

business school education around the world. That said, our research shows that business schools are still the most popular way for young entrepreneurs to learn how to implement their new venture ideas and operate their start-ups efficiently by developing leadership skills. Also, entrepreneurs should accumulate their experiences and knowledge through practice, as the data shows that most entrepreneurs we sampled have participated two to three new ventures prior to the current one.

We also found differences between Chinese and European new ventures regarding their customers and industries, market growth, source of capi-

tal, etc., which may be caused by the differences between the two business environments.

These findings will help our understanding of entrepreneurs and new ventures in China and in Europe, but as stated above, this report is an initial exploration and there are still a number of areas that call for future research, among them the role of government in promoting entrepreneurship, especially in those industries with high growth potential.

We also recommend future start-ups in Europe to focus more on new technology related businesses and industries, which represent a potential for faster growth and less intense competition.

In terms of the sources of capital for Chinese new ventures, there are huge opportunities to access both private venture and government capital.

At the same time, we need to look at the different characteristics, styles, and performance among entrepreneurs located in different regions/countries and their relationships with the local economy.

Our research also suggests that gender diversity could be improved as women take up government incentives to facilitate greater inclusion in business.

Finally, after talking to our sample groups, it was clear that business schools could better recognize local needs for entrepreneurship education and develop customized programs that can be adopted to different business environments.

**PEDRO GETE** / Professor and Chair, Department of Finance IE Business School and IE University.

## Real Estate Dynamics in China, Insights from Academic Research

Over the past decades, housing prices have increased in China more than in Europe, Japan or the United States before their housing-related financial crises. Given China's significant importance for the world economy, there is a lot of interest within academia, business and in policy circles about what drives housing dynamics in China. Several researchers, including myself, have dug through the data to analyze housing dynamics in China. There has been an active literature on the subject and here I briefly discuss three relevant findings.

First, in terms of real estate, it is not a good idea to think of China as one market: different regions and cities have vastly different income levels, characteristics and trends. It is common to classify cities in China based on a tier system. There is not a single version of this classification, but it is usual to say that there are four tiers. Beijing, Shanghai, Guangzhou and Shenzhen are considered the tier-one cities. Twenty-six provincial capitals plus the two municipalities of Chongqing and Tianjin are classified as tier-two. The rest are tier-three and four. Most of these lower-tier cities have a population of at least five million and together they make up more than 50% of the Chinese population. There is wide heterogeneity in prices and construction across tiers. The top-tier cities are recovering from oversupply



**“The results discussed above offer some hope that China can avoid the kind of devastating housing crisis that most OECD economies have recently experienced”.**

as their populations grow and their economies thrive on an expanding service sector, which is the new driving force of China's GDP growth. Many of the lower-tier cities are tied to low-value manufacturing and face an overhang of unsold housing stock. However, lower housing costs and central government subsidies will attract people towards the low-tier cities. Thus, the future is not bleak for these cities.

Second, most studies that analyze the drivers of recent housing price dynamics point to a strong role for fundamentals like population, technology and income growth. For example, during the decade 2003–2013, housing prices had an aver-

age annual real growth rate of 13.1% in first-tier cities, of 10.5% in second-tier cities, and of 7.9% in the lower-tier cities. Households' disposable incomes grew at an average annual real growth rate of 9% throughout the country during that decade. This joint presence of enormous housing price appreciation and income growth contrasts with the experiences during the U.S. and Japanese housing bubbles, for example.

Third, as banks in China imposed down payments of over 30% on all mortgage loans, banks are protected from mortgage borrowers' default risk, even in the event of a sizable housing market meltdown of 30%. This makes a U.S. style subprime credit crisis less likely in China. However, the financial risks in China may be hidden in the shadow financial system that finances the real estate developers.

From April to June 2019, China's economy grew 6.2% from a year ago. This was the country's slowest pace since the first quarter of 1992, the earliest quarterly data on record, according to Reuters. This data, together with the high levels of private leverage, are worrisome and have many Western newspapers speculating about a potential crisis in China. The results discussed above offer some hope that China can avoid the kind of devastating housing crisis that most OECD economies have recently experienced.

**RAFAEL BUENO** / Policy, Society & Educational Program Director Casa Asia

## Xi Jinping's China

When the prestigious magazine *The Economist* referred to President Xi Jinping as the most powerful man on Earth, it was already foreshadowing China's new role in the 21st century under the figure of arguably the most powerful leader in the 70-year history of the People's Republic of China.

President Xi's journey to where he is today has not been a bed of roses. His youth was marked by his father's political purge during the Cultural Revolution; by his time spent in a work camp and the tragic killing of his sister.

It is also true to say that when the General Secretary of the world's largest political party, with over 90 million members, came to power in 2012, nobody expected that he would change the Constitution five years later in order to put an end to the limit imposed by Deng Xiaoping on more than two terms of office and, by extension, to the collective leadership style, ushering in a new Chinese version of socialism that is set to mark a new era.

Nor should we forget President Xi's initial steps in the party with the arrival of Deng Xiaoping, when he decided to start his political career, working his way up through the ranks until he occupied the three most important posts in the country: Chairman of the Central Military Commission, General Secretary of the Communist Party of China and President of the PRC.

To reach these heights, Xi was well aware that he had to copy the strategy



used by the Great Helmsman, Mao Zedong, and that the first step was to control the People's Liberation Army. Secondly, he needed to control the political apparatus through the CPC's much-feared Central Commission for Discipline Inspection, and finally, in order to close the circle, Xi Jinping needs to control society. Paradoxically, and unlike Mao, this will be a much more complicated process. Although to achieve this, collective leadership, the creativity afforded by centralisation, the right to dissent within the political apparatus, and the maintenance of a low profile at international level have all been eradicated.

Finally, and in order to achieve the Chinese dream so widely promised to society, he has created powerful and highly ambitious economic, political and social instruments.

The star of the show is undoubtedly the New Silk Road, One Belt One Road,

through which China aspires to give the kingdom the central position it historically thinks it deserves.

The "Made in China" initiative is another of the strategic plans launched in 2015 by Prime Minister Li, which aims to put China at the forefront of the world's technological progress.

In terms of the international presence of the Asian giant, the alternative idea of global governance competing against the dominant model imposed by the West since 1945 is also worth mentioning.

In order to make this dream a reality, Xi needs to recover China's position as a cultural and civilization reference that the country held for centuries. It also needs to win back the lost territories of the empire and the Republic and reinstate what used to be known as the tax system that enabled China to maintain its regional influence.

There are two key dates that will demonstrate whether the Chinese dream is coming true. The first is 2021, when the first centenary of the creation of the Chinese Communist Party will be commemorated in Shanghai, and the second, and perhaps most important date, is 2049, when the Communist dynasty will be pulling out all the stops to mark the first century of its existence.

For the moment, there is no reason to believe that there may be any changes in these celebrations in the roadmap marked out by President Xi.

**NACHO MATEO** / Chief of Investor Relations. IE Business School

## China and its future as an entrepreneurial ecosystem

Entrepreneurship undoubtedly plays an increasingly important role in the economy of any country. We have seen how a country the size of Israel (the so-called Startup Nation), with a population of 8.5 million people has managed to build one of the world's most powerful entrepreneurial ecosystems (behind Silicon Valley) that has become one of the driving forces of its economy.

Over the last decade, countries such as Germany, UK, France and Spain have experienced a golden age of entrepreneurship and, with varying degrees of success, have demonstrated that a robust entrepreneurial ecosystem is critical to being a competitive nation in the 21st century.

While it is true that Europe and the United States (and now China) are one step ahead, it is also becoming increasingly clear that Latin America is beginning to take its first steps towards its own golden age of entrepreneurship. In this aspect, countries such as Brazil, Mexico and Chile have played a prominent role for years with policies focused on entrepreneurial development. However, now, in addition to the old acquaintances, new players are emerging onto the scene.

The scenario in China is bright. The economic growth of recent years, the



**“The scenario in China is bright. The economic growth of recent years, the country's extensive infrastructure, the vast market and the chinese government's commitment to innovation have enabled china to gain a foothold as one of the world's great ecosystems.”**

country's extensive infrastructure, the vast market and the Chinese government's commitment to innovation have enabled China to gain a foothold as one of the world's great ecosystems. However, what are the essential ingredients to successfully develop an entrepreneurial ecosystem? In this article, we will try to analyse some aspects that have been key to the success of the different international ecosystems.

The Global Entrepreneurship Monitor (GEM) is the world's largest entrepreneurship research network. Its annual study tracks the entrepreneurial performance of the countries that participate in it each year, and assesses countries based on multiple criteria.

One of the most significant indicators in this study is Total Entrepreneurial Activity (TEA), which describes the trends in new business ventures by differentiating between nascent entrepreneurs (entrepreneurs whose businesses are less than three months old) and new entrepreneurs (entrepreneurs whose businesses are between three and 42 months old). In its last report, China obtained a TEA of 10.4% in this study, ranking 26th out of 48 countries surveyed.



### Country Profiles China



#### Self-Perceptions About Entrepreneurship

	Value	Rank
Perceived opportunities	35.1	35/49
Perceived capabilities	24.2	48/49
Fear of failure	41.7	13/49
Entrepreneurial intentions	15.3	28T/48

#### Activity

	Value	Rank
Total early-stage Entrepreneurial Activity (TEA)		
TEA 2018	10.4	26/48
TEA 2017	9.9	29T/54
TEA 2016	10.3	32T/65
Established business ownership rate	3.2	44/48
Entrepreneurial Employee Activity - EEA	1.0	42/49

#### Motivational Index

	Value	Rank/48
Improvement-Driven Opportunity/Necessity Motive	0.9	44T

#### Gender Equality

	Value	Rank/48
Female/Male TEA Ratio	0.82	14
Female/Male Opportunity Ratio	1.05	7T



Without doubt, education is one of the cornerstones for building a successful entrepreneurial ecosystem. Schools and universities must promote entrepreneurship and train and educate society, not only in technology and innovation, but also by instilling entrepreneurial values such as eliminating the fear of failure and reinforcing the ability

to adapt to constant change. According to the GEM study, China obtained a score of 5.27 in terms of entrepreneurial education at post-school stage, ranking 15th out of 54 countries surveyed. However, the analysis of entrepreneurial education at school stage was poorer, ranking 19th in the study.

Another fundamental aspect when developing a competitive entrepreneurial ecosystem is to implement good

public-sector management. Government and legislators have a very important role in establishing a regulatory framework that encourages the creation of startups in the country, facilitating the survival of entrepreneurial ventures. In this respect, according to the latest figures from the World Bank regarding the best countries for starting a business, China ranks a prestigious 28th out of 190 countries surveyed. Here it is worth

highlighting how Chinese policies have facilitated the creation of large innovation hubs within the country, and proof of this is the positioning of the city of Shenzhen as “the Chinese Silicon Valley” where the headquarters of China’s large high-techs are located.

Moreover, according to the GEM, China ranks 14th out of 54 in terms of government tax policies and bureaucracy, so clearly this is one of the competitive advantages that the country will be able to exploit to attract entrepreneurs from around the world.

Another of the fundamental aspects China needs to target if it wants to be competitive on the international stage is the implementation of open innovation policies by large private companies. In this respect, with the exception of the major high-tech companies such as Baidu, Tencent, Huawei and Alibaba, China still has a long way to go to become a major ecosystem. The adoption by the country’s business fabric of open innovation policies through partnerships with technological startups is the tool that guarantees the long-term development of entrepreneurs and of corporations themselves, not only of technological enterprises, but also of firms in more traditional industries such as construction, textiles and agriculture.

In addition to education and the public and private sector, we must also analyse another of the cornerstones on which any good entrepreneurial ecosystem must be based: financing. According to GEM, China ranks mid-table in terms of how easy it is for its entrepreneurs to obtain financing (it ranks 27 out of 54). It is true that China does not have the maturity of the Unit-

ed States or Israel in terms of venture capital funds and professional business angels networks, yet there is an increasing volume of investment in the ecosystem, and in just one year venture capital investment in the country has grown by 52.9% with a total of \$70.5 trillion invested (compared to \$130 trillion in the US). The attractiveness of venture capital is, of course, inextricably linked to the country’s regulatory framework and the maturity of the private sector in terms of open innovation, as men-

tioned above, and it is obvious that as Chinese startups continue to develop and grow in metrics and client numbers, investors will intensify their operations in the country.

As a conclusion, we can say that, despite the trade war with the USA and the global economic recession, China is making huge inroads into developing its entrepreneurial ecosystem, and in the coming years we are likely to be talking about China as one of the world’s largest entrepreneurial ecosystems.

#### EXPERT RATINGS OF THE ENTREPRENEURIAL FRAMEWORK CONDITIONS



EFCs scale: 1 = very inadequate insufficient status, 9 = very adequate sufficient status  
Rank out of 54 recorded in brackets

# 1<sup>st</sup> TECH MBA IN EUROPE

**Business  
powered by  
technology**

f o r m a t /  
1 y e a r :  
= f u l l \_ t i m e  
s e p t e m b e r  
e m a & j a n u a r y y e a r  
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At IE Business School, innovation is part of our DNA. This is why, we designed a cutting-edge experiential learning journey in the areas of technology, management and transformational leadership. The Tech MBA inspires professionals who seek to be fluent in the language of business and tech, getting them ready to lead the fast and continuous pace of technology evolution.