

Research on the Development of VC Industry in China

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Abstract. Consequently, venture capital investment is characterized by elevated risk and substantial returns, predominantly channeling resources into nascent enterprises and projects with pioneering concepts and significant growth prospects. Features of VC investing include high risk: The risk is high as the investment target is usually at an early stage and faces many uncertainties. High returns: Once the investment is successful, it can reap huge returns. Innovativeness: Focus on enterprises with innovative ideas and technologies. Long-term investment: It usually takes a long time to realize returns. The VC investment process generally consists of the following stages: Project Screening: Look for potential investment projects. Due diligence: Conduct an in-depth understanding and evaluation of the project. Investment decision: Decide whether to invest or not. Post-investment management: provide support and oversight. The main roles of VC investment are to promote innovation and provide financial support to innovative enterprises. Driving economic growth: Helping businesses grow and create jobs. Resource integration: Provide a variety of resources and experiences. However, there are some challenges to VC investing: High risk: There is a high probability that the investment will fail. Information asymmetry: It is difficult for investors to have a comprehensive understanding of the project.

Keywords: Venture Capital, Development, Investors.

1. Introduction

There are already signs that venture capital from the capitalist system, brought to China by dollar funds, has begun to enter a new socialist VC ecosystem with Chinese characteristics.

Its core features are that the state is the core investor, market institutions do professional investment management support, and there are attempts to exit the Science and Technology Innovation Board, the Growth Enterprise Board, and the registration system reform. We work together to achieve larger goals, such as solving the bottleneck of technology, such as carbon peak, and even common prosperity. The Central Economic Work Conference stressed that we should adhere to and improve the basic socialist economic system and adhere to the direction of socialist market economy reform. The "construction of a modern capital market with Chinese characteristics" is already underway. In the towering waves of The Times, China's PE/VC industry has gone through an extraordinary 30 years. From a rapid start to spurt development, from savage growth to intensive cultivation, Chinese VC advanced from the 1.0 era to the 3.0 era. What is Chinese VC 1.0, 2.0, 3.0? On the staging of Chinese VC, the industry is not the same, which Yuan He Chen Kun's managing

partner Xu Qing said in the latest public speech: the market environment, strategic characteristics, and team characteristics are different, which is an important basis for judging the staging of Chinese VC.

Previous studies have explored China's VC. Many people believe that China's VC development is a great breakthrough. Bruton has thought that the institutional theory explains management differences globally. Limited scrutiny of non-US/European venture capital. A study on China's VC finds differences from the West and discusses implications [1]. Batjargal has pointed out that this paper studies the impact of dyadic relationships and interpersonal trust on venture capitalists' decision-making under the background of China and Russia, taking social network theory as the framework. The results show that some connections and trust have positive impacts. Institutional and other differences have little impact on referrals. Interpersonal trust has a positive impact on investment decisions in Russia [2]. Gu and Lu think the Existing research shows resources are important for companies to form alliances. They focus on corporate reputation and study its impact. We propose an inverted U-shaped relationship. They also study how it changes in two contingencies. Empirical analysis of China's VC industry supports the hypotheses [3]. Zhao has thought that China's venture capital research progress summarizes key points and arguments, and offers thoughts on disputes and directions [4]. Folta discusses the impact and prominence of venture capital in China. Context of venture capital; different types of venture capital funds investing in China; Range of deals in venture capital [5]. Dauterive and Fok thought that Despite the market potential, challenges exist in China's economy. This paper discusses venture capital's role. A healthy market is far from reality. Obstacles include state control regulations, and restrictions on capital and currency flows [6]. Pan Zhao XBandWojcik researched that VC companies' locations draw attention. Spatial patterns of cross-regional VC flows in emerging economies are rarely explored. This study uses a dataset to investigate China's VC spatial patterns. Results show Beijing, Shenzhen, and Shanghai are leading centers. Beijing and Shenzhen have advantages. They seem more important in China's VC network [7]. Deng and Li researched that the Venture capital is both an opportunity and a challenge for developing countries. China's venture capital is facing problems. This paper puts forward suggestions such as speeding up legislation, expanding sources of funds, and cultivating talents to promote the development of China's VC industry and the all-round development of the economy [8]. Zhimin and Jinjin investigated A tentative study on venture capital investment in China. IEEE. As the knowledge economy emerges, venture capital is exerting an ever more crucial role in China's high-tech industries. This paper examines the current status and issues of venture capital in China, identifies several problems that impede its development, and offers some suggestions to boost the growth of venture capital [9]. Bruton and Ahlstrom researched the theme that Venture capital in East Asia has played a crucial economic role in the region's development and is expected to assume an even more important role in the future. However, our understanding of the industry remains rather limited. It is commonly known that institutions in East Asia can affect the behavior of organizations in the area [10].

2. VC industry development history

Over the past few years, China's venture capital market has grown in size and influence as an unstoppable trend. In particular, since 2015, with the in-depth implementation of the government's policy of "mass entrepreneurship and innovation", China's venture capital market has ushered in an unprecedented era of the "Great Leap Forward". The notable sign of this period is that the number of local venture capital institutions not only exceeded the 300 mark, but the number of investment

projects far exceeded that of US dollar funds, marking the rise and growth of local venture capital institutions.

As these institutions continue to grow in strength, they gradually become capable of competing with US dollar funds. Behind this transformation are the joint efforts and dedication of countless entrepreneurs and investors. They not only bring fresh blood and innovative thinking to the market but also promote the rapid development of the entire industry.

This change is particularly noticeable from the perspective of the size of angel fund fundraising. In 2014, China's angel funds raised only 5.668 billion yuan, but in 2015, this figure soared to 203.57 billion yuan, achieving a qualitative leap. This astonishing growth rate not only reflects the strong interest of market investors in angel investment but also highlights the vitality and prosperity of the capital market.

In terms of the number of investments, there is also a trend of explosive growth. In 2014, there were 766 angel investment cases in China, involving an investment amount of 32.35 billion yuan. In 2015, the number of angel investment cases soared to 2,075, and the disclosed investment amount was as high as 101.88 billion yuan. Behind this series of data is the emergence of countless entrepreneurial projects and the enthusiasm of investors for innovative enterprises.

At the same time, the size of the venture capital market is expanding dramatically. According to statistics, in 2015, 721 new venture capital funds were established by venture capital institutions across the country, with an additional investable principal of up to 220 billion yuan, a significant increase over previous years. This round of "Great Leap Forward" has not only promoted the rapid development of innovative enterprises but also injected new vitality and hope into China's venture capital market.

However, with the continuous change and adjustment of the market environment, China's venture capital market is also facing many challenges. How to maintain rational investment while maintaining investment enthusiasm and how to optimize resource allocation to promote industrial upgrading have become important issues for future market development. Venture capital firms, need to balance social responsibility and sustainability goals in the pursuit of profits; entrepreneurs, need to continuously improve their innovation ability and market competitiveness to win the favor of investors.

In this process, the role of government cannot be ignored either. The government can guide and support the development of the venture capital market by formulating better laws, regulations, and policy measures; At the same time, it can also ensure the stable and healthy development of the market by strengthening supervision and risk prevention. Only in this way can China's venture capital market continue to maintain a strong growth momentum in the future and make greater contributions to economic and social development.

3. Current situation and characteristics of VC

China's venture capital (VC) industry has experienced rapid growth over the past few years, but it also faces some unique challenges and issues.

First, despite the rapid development of China's venture capital market, there are still a number of obstacles to its exit mechanism. China's multi-layered stock market, including the Main Board, SME Board, and Chi Next Board, is unable to provide a smooth exit channel for domestic VC due to stringent listing rules and several issues.¹⁶ As a result, venture capital's return on capital and liquidity are limited, affecting future investment decisions. In addition, China's legal and regulatory environment has also hindered the entry of foreign venture capital to some extent. For example,

current laws make it difficult for private funds to access China's venture capital markets, thus limiting the supply of capital to the market¹²²⁹.

In Western China, the implementation mechanism and development of venture capital guidance funds are also facing some problems, which need to be further improved through policy and management adjustments⁴. In addition, government-backed venture capital (GVC) has also played an important role in supporting start-ups with limited funding. GVC generally provides subsidies to bridge the funding gap in early-stage venture capital markets, but their impact and mechanisms need to be further studied³¹. In the face of these challenges, China's venture capital industry continues to show strong growth momentum, making important contributions to the development of high-tech industries, industrial adjustment, and capital allocation optimization¹⁰. However, in order to achieve sustainable and healthy development in the future, it is necessary to continue to make improvements in the market environment, exit mechanism, legal supervision, and other aspects. China's venture capital (VC) market has several unique characteristics that are closely related to China's economic development stage, policy environment, and corporate innovation needs. Here are the main features mentioned in several papers:

3.1. Networks and synergies

VC organizations in China often reduce risk by building strong social networks to share information and resources. Research shows that VC institutions with higher levels of networking show better financial performance⁴⁰.

3.2. Financing models and investment behaviors

Chinese startups are significantly less likely to choose to list abroad if they are backed by local Chinese VC when choosing a listing location; Companies with foreign VC or Sino-foreign joint investments are more likely to choose to list abroad²⁶. The impact of Chinese VC on corporate profitability is significantly positive²⁷.

3.3. Government support and policy environment

The Chinese government supports financially constrained start-ups through state-owned venture capital (GVC) and provides subsidies to bridge the funding gap in the early-stage venture capital market. The common effects and mechanisms of such government support require further research and analysis²¹.

3.4. Impact on innovation and R&D

Venture capital has significantly contributed to the development of the digital industry, increasing the number and speed of digital enterprises at the city level²³. The positive impact of high-reputation VC on the R&D investment of listed companies is obvious¹⁴.

3.5. Market development & potential

China's medical device market has attracted significant foreign investment, and the growth potential in this sector is significant compared to other popular sectors⁶.

3.6. Risk management

When VCs consider partnering with local partners, they face multiple risks from the lifecycle, operational, and political aspects of the business, and combine the breadth and depth of their knowledge to address these risks⁸.

In summary, China's venture capital market is expanding rapidly and is gradually maturing and diversifying. The promotion of national policies, the intervention of global capital, and the growth of market demand have jointly driven the healthy development of this market. These features offer many possibilities for the growth of innovative businesses, while also creating abundant opportunities for investors.

4. Prospects

After more than 20 years of rapid growth, China's venture capital (VC) industry has become one of the most attractive markets in the world. This development has shown an important role in a number of areas, and the following are the key prospects for the development of VC in China and the challenges they face:

4.1. The development potential of China's VC industry

With the rapid development of the market, China's venture capital industry has shown huge market potential. In particular, the development of the digital industry has significantly promoted the development of the VC industry. Research shows that an increase in venture capital will directly contribute to the development of the digital industry, which is reflected in the growth of emerging companies and the improvement of technological innovation capabilities²⁶.

4.2. Clean tech focus

The Chinese government's increasing focus on environmental issues has made cleantech-related sectors the third wave of VC investment. Cleantech is closely linked to environmental protection, energy efficiency, ecosystems, and sustainable development, and represents a new investment direction³.

4.3. The impact of venture capital on the long-term development of enterprises

Research shows that the long-term impact of venture capital on the sustainable development of Chinese listed companies is significant. A study of a sample of Chinese listed companies that received venture capital support between 2002 and 2022 shows that venture capital plays an important role in promoting the long-term stable development of enterprises⁹.

4.4. Government support and international cooperation

Government-funded venture capital plays an important role as a policy tool in China, particularly in the early-stage venture capital market, where government funding often fills the funding gap by providing subsidies to incentivize private capital to invest in start-ups³⁵. In addition, Chinese companies have improved the effectiveness of venture capital by collaborating with foreign partners in terms of technological capabilities and international market forces.²⁴⁴⁵

4.5. Challenges faced by the industry

Although China's VC industry has a bright future, there are still many challenges. For example, increased competition within the industry, uncertainty in the policy environment, and high uncertainty in the innovation process of the enterprises themselves³³⁴⁹. In addition, more research and understanding of venture capital firms' social networks and synergies need to be further developed, which is critical to improving the overall effectiveness of the industry⁵⁰.

In conclusion, the development outlook of China's venture capital industry is positive and optimistic, and the VC industry is expected to continue to maintain rapid growth under the combined effect of policy support, market demand, and international cooperation. However, all parties in the industry need to work together to address the challenges and further optimize and improve the performance of the industry.

5. Conclusion

The venture capital (VC) industry in China has experienced rapid growth in the past few years and has demonstrated enormous market potential on a global scale. The policy support of the Chinese government, especially in the early-stage venture capital market, has filled the funding gap by providing subsidies and incentives, promoting private capital investment in startups. In addition, China's venture capital market has played an important role in promoting technological innovation and industrial upgrading, especially in the development of the digital industry, where venture capital has made significant contributions to economic growth.

The venture capital industry in China also faces some challenges, including fierce competition within the industry, uncertainty in the policy environment, and high risks in the innovation process of enterprises. Nevertheless, the development prospects of China's VC industry remain optimistic, and it is expected that the industry will continue to maintain a good growth momentum with the joint efforts of policy support, market demand, and international cooperation. The venture capital industry in China is undergoing a transition from rapid expansion to structural adjustment, with the survival space of small venture capitalists being compressed, while the investment model of large capital and large industries is gradually taking shape. Government-guided funds and state-owned capital play an increasingly important role in this process, while Chinese venture capital institutions are actively participating in international competition and cooperation, seeking broader investment opportunities.

Overall, China's venture capital industry has played a positive role in promoting innovation, supporting entrepreneurship, and driving the development of high-tech industries, and is expected to continue making greater contributions to the high-quality development of the Chinese economy in the future.

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