

Industry





Hangzhou's online revolution

**Rmb100
billion**

**Hangzhou's
e-commerce
revenue for
2015**

Anyone interested in Chinese business will know of the Silk Road – either in its historical form, or the modern incarnation promulgated by President Xi Jinping (which focuses on Chinese investment along the ancient route). But while many may know of the Silk Road as a byword for trade flows in and out of China, fewer know that the silk for which it is named has its origins in Hangzhou.

Silk holds great historical and cultural significance to the city that first manufactured it, and Hangzhou grew to be an important textile hub. But that stage of the city's development is now tapering off, with many low-tech manufacturing industries, not just textiles but steel, being forced to close and move out of the city.

Although some traditional components are still present in Hangzhou's five pillar industries (electronics and information; medical and chemical engineering; mechanical manufacturing; textile and garments; food and beverages) high-tech, high-end and online industries have become the priorities.

In the city's 12th Five-Year Plan, the local government

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The city is very dynamic. It offers a vibrant combination of traditional culture and modern entrepreneurship

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decided that its key areas of focus would include technology, media and communications (TMT) as well as e-commerce, high-end manufacturing and the financial industry. The emphasis on these sectors has opened new opportunities for foreign investment. In 2011 the local government announced that it would award financial support as well as provide favourable tax incentives and land policies to foreign investment projects across a range of fields, including many of those listed above. Already, 120 Fortune 500 companies have invested in Hangzhou, including Mitsubishi, Novartis and Coca-Cola.

Focusing on e-commerce seems particularly pertinent given that Hangzhou is often referred to as China's “capital of e-commerce”. In 2015, China's first national cross-



**Thanks to Alibaba,
Hangzhou is already
known as the 'capital of
e-commerce'**

REUTERS

Alibaba warehouse



“The potential for Hangzhou’s innovation industry was already here, but Jack Ma was the spark that ignited it”

Hangzhou’s pride: Alibaba

Alibaba began as an online platform for B2B (business-to-business) trade, but soon expanded into B2C (business-to-consumer). It now covers sectors including travel, transport, finance and payments. The company’s 2014 listing raised \$25 billion, making it the largest IPO in the world. This record breaking company has its humble origins in Hangzhou.

Founded in 1999 by Jack Ma, a local English teacher, Alibaba has grown to have a profound impact throughout China, but perhaps no where more markedly than in its hometown. In the circles of entrepreneurs and innovators, Jack Ma is respected as a pioneer and revered as a legend. “The potential for Hangzhou’s innovation industry was already here, but Jack Ma was the spark that ignited it,” says the Hangzhou-based CEO of LetsFun Tang Yuying .

While some might draw inspiration from the man and his status in the city, others are more directly influenced by the company and its presence. There is a phenomenon in Hangzhou known as the “Alibaba spillover”. This is the process by which promising graduates enter Alibaba, gain experience, learn the tricks of the trade, make contacts, and then leave to start their own business. Thus the various Alibaba offices dotted throughout the city are in a sense incubators of their own: nurturing budding entrepreneurs.

In addition to fostering talent, Alibaba appears to have the Midas Touch, bringing wealth wherever it goes. In the property market, house prices rise whenever Alibaba breaks ground on a nearby office. Moreover, although the company is listed in New York, its taxes still come through Hangzhou. In 2014 its tax contributions reached Rmb10.9 billion (\$1.76 billion) – making it China’s highest tax-paying internet firm.



border e-commerce zone was established in Hangzhou. The pilot zone introduced initiatives to simplify the procedure of importing and exporting goods – primarily streamlining customs processes so that rather than reporting to several offices, companies need only report online. According to Xinhua, international e-commerce transactions were boosted 30% in 2015. Now in 2016, the central government is seeking to replicate the e-commerce initiatives of Hangzhou across other major cities.

A recent national policy geared towards maximising the utilisation of information networks, dubbed “Internet+”, has also been particularly effective in Hangzhou. The initiative seeks to mobilise the internet as a means to modernise and advance traditional sectors of the economy – such as using mobile payment methods for taxi rides.

Examples of start-ups merging the modern with the traditional can be found across Hangzhou.

One such company, LetsFun, is a healthcare firm that combines traditional Chinese medicine (TCM) with O2O and big data services. This start-up – based in Binjiang, the site of Hangzhou’s High-Tech Industrial Development Zone (HTIDZ) – prescribes TCM treatments as well as fitness programmes; It then uses WeChat to connect groups of clients prescribed the same health regime, so that they can support each other in their progress; lastly,

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“In the city’s 12th Five Year Plan they defined several industries on which to focus. TMT, e-commerce, high-end manufacturing industries, tourism, financial industries and new energy. These industries are the ones that city has been focusing on”
William Wu,
HSBC

”



The team at LetsFun

it uses the data collected from these groups to assist healthcare companies in target marketing.

Returning to silk: Wensli, China’s largest silk producing company by output, is seeking to expand its surprisingly limited fortunes. Despite being silk’s homeland, China’s manufacturers have laboured at the low end of the value chain. Li Jianhua, president of Wensli,



“You should learn from your competitor, but never copy. Copy and you die”

Jack Ma,
Alibaba boss
and Hangzhou’s
most famous
resident



Second-generation entrepreneurs

Across China you might encounter talk of *fuerdai* – the second-generation rich – or *guanerdai* – second-generation officials – but in Hangzhou there is a class known as *chuangerdai*: second-generation entrepreneurs.

The first-generation of entrepreneurs emerged after the 'Reform and Opening Up' of the early eighties. During this time, thousands of Chinese opened their own businesses and many struck it rich, later giving rise to the *fuerdai*. Many *fuerdai* seem happy to live comfortably – or even showily – off their inheritance, but in Hangzhou, many want to outdo their parents' commercial achievements.

“They’re not frivolous with money, and they don’t want to simply live off their parents’ money, or enter their parents’ business: they want to start a business for themselves.”

- Wang Xiaohao, deputy head of the government's Hangzhou Youth Employment and Entrepreneurship department

The Economist magazine has called Zhejiang province the most entrepreneurial place in China and Hangzhou is the province's capital

believes that as new technology propels China forward, it will carry traditional culture with it, and bring silk – this bastion of Chinese history – into the modern market.

Wensli's global expansion strategy is underway. In 2013 the company bought French silk manufacturer Marc Rozier, and in 2014 appointed the former head of Hermès Textile Holdings Patrick Bonnefond as CEO of its subsidiary in charge of global promotion, which now includes the Marc Rozier brand.

In addition to laying claim to the title of China's e-commerce capital, Hangzhou is proudly one of the most entrepreneurial cities in China. Many residents seem to think that this is linked to the provincial capital's long and illustrious history: that people from Zhejiang are inherently more suited to enterprise than those from anywhere else in the country (a trend The Economist noted last year when it described Zhejiang province as “the most entrepreneurial place in China”). Indeed Week In China's latest edition of its book *China's Tycoons* mentioned that 18 of the nation's leading entrepreneurs came from Zhejiang – more than from any other province in the book's list.

In testament to Hangzhou's entrepreneurial verve, in 2015 alone over 120 “incubators” were opened across the city. In addition to these smaller centres, the High Tech Industrial Development Zone in Binjiang plays host to



He has topped China's rich list twice, but the man is infamously frugal, saying himself that his only hobbies are "smoking and drinking tea"

Zong Qinghou

REUTERS

From teacher to tycoon: Wahaha

Wahaha has its origins in the late eighties and early nineties when CEO Zong Qinghou – a former teacher in Hangzhou, like Jack Ma – raised enough capital to launch a health drink for children. Since then, he has topped China's rich list twice, but the man is infamously frugal, saying that his only hobbies are "smoking and drinking tea". The rest of Zong's hours are spent managing Wahaha.

Zong, a famously autocratic businessman, belongs to the original band of Hangzhou entrepreneurs that emerged on the back of strong government incentives and support for new enterprises. Before it took form as a drinks company, Wahaha operated as a shop in an elementary school, selling ice creams and milk. When it received a government loan to purchase a drinks processing plant as part of the national sell-off of state firms it began its climb to become the nation's largest beverage company.

The man who founded Wahaha likes to say it took him 11 years of hard work to make it the biggest beverage company in China. The company has also diversified its portfolio to include medicine, food, clothing, shopping malls and electric motors. In 2013 the gross profit for the company's beverage division alone reached Rmb13.9 billion (\$2.09 billion).

Looking to the conglomerate's future, it is anticipated that Zong's only child, Zong (Kelly) Fuli, will one day take over. Mind you, Zong himself seems to think that his daughter (who already works with the company) is not yet ready for the role, which could be due to their disagreements over how the business should be run.

Kelly Zong believes in delegation more than her autocratic father. Another difference between them is undeniably their gender: Kelly has told reporters that despite representing the might of Wahaha at meetings, her input is often ignored because she is a woman.

Kelly's views on company management and gender equality offer a telling insight into the changes likely to transpire in the world of Chinese business as a younger generation of entrepreneurs and executives emerge – many more of whom are women than before.

In her own words: "People of my generation will never be like my father's generation."



In a testament to Hangzhou's entrepreneurial verve, in 2015 alone over 120 "incubators" were opened across the city

incubators of larger scale, housing hundreds of start-up industries.

A key feature behind Hangzhou's development as a hub for innovators has been the government. Adding to the policies for foreign investment listed above, the government has also provided cash assistance to local start-ups, and linked entrepreneurs with its top-tier educational establishments. Professors of local universities are allowed to apply for two years paid leave in order to establish an enterprise. (The link between entrepreneurs and educators has precedent in Hangzhou: two of the city's most prodigious sons are former teachers. See boxes on Alibaba and Wahaha.) Policies such as this demonstrate the city's goal to be the location of choice for budding entrepreneurs.

But the government also has some more commonplace initiatives. Like elsewhere in China, Hangzhou's government is hoping to reduce labour costs and boost efficiency by promoting the mechanisation of production lines. By 2020 the local authorities hope to have completed 3,000 "mechanisation reforms" to introduce robots to the workforce. 🤖

"We started supporting entrepreneurs in 2011. From the second half of 2013 to today, entrepreneurship – incorporating investment organisations and entrepreneurs – has developed incredibly quickly."

– Wang Xiaohao, deputy head of the government's Hangzhou Youth Employment and Entrepreneurship department



Hangzhou's 10 wealthiest tycoons

Name	Company	Wealth (\$ millions)
Jack Ma	Alibaba	27,000
Zong Qinghou	Wahaha	20,500
Lu Guanqiu	Wanxiang	6,100
Huang Wei & Li Peng	XinHu	5,600
Gong Hongjia & Chen Chunmei	Hikvision Digital Technology	3,600
Li Shufu & Li Xingxing	Geely	3,100
Dou Zhenggang	Jinjiang	2,000
Li Shuirong	RongSheng Holdings	2,000
Fu Liqun & Zhang Hong	Dahua Technology	1,900
Lou Zhongfu	First PV Materials	1,900

Data: Hurun Global Chinese Rich List, August 2015





International Institute of Entrepreneurship

This year, Cyzone (the Chinese franchisee of Entrepreneur Magazine) ranked Hangzhou as China's fourth most enterprising city, behind Beijing, Shanghai and Shenzhen. As such, Sinopolis spoke to vice-president Andy Lee and office manager Jenny Yao from one Hangzhou organisation hoping to foster that entrepreneurial spirit: the International Institute of Entrepreneurship (IIE).

Why was the institution founded?

This year, President Xi Jinping and Premier Li Keqiang suggested there should be a new wave of innovation and entrepreneurship. The state leaders have encouraged the people to go out and innovate, to be entrepreneurial; they've issued policies supporting innovation and entrepreneurship. So the IIE was established against the backdrop of this surging innovative, entrepreneurial wave. So because this new wave has emerged, it has been necessary to establish many institutions like ourselves, as well as incubators and entrepreneurial colleges. This is a structure designed to manage the requirements of this new band of entrepreneurs.

Why do they need support?

Because the body of innovators and entrepreneurs is fairly large, but their success rate is pretty low: in China the success rate of these new companies is perhaps 2-3%. But in America – Stanford or Silicon Valley – the success rate can be as high as 15%. So here our purpose is to help the body of innovators increase its levels of success.

How do you help?

There are a few key sections to our offering. The first is research, which we obtain via our association with Zhejiang University. The second is education, which is what we do here. Some of our students are still at university and others are start-up founders. After going through "education" there's a third section for those whose performance was particularly strong: this is one-on-one mentorship. We nurture them, give them good resources and that sort of thing. Then there's a final section where we help professors at university achieve an international certification to teach entrepreneurship.



Do you offer access to investment too?

We see what they lack and then give them what they need. So if they lack a partnership we can help them find a partnership; if they lack skills or technology we have a high tech college that can arrange assistance with that; if they need capital, then we can help them find that too. We have plans to set up an investment fund, but haven't yet. So after we set one up then we can offer investment ourselves.

What does your education service entail?

Our education system is split into two parts: online and offline. Online we've developed an education system and launched some software to create a way of attending class online, then after the class there are a number of exercises to complete – we extend this service to university students through the institution.

We've also launched some services which are simulation exercises for budding businesses: the entrepreneurs are grouped together and we simulate the process of running a business. At these occasions, and at our business networking events, we might arrange a lecture where we invite someone to present on a topic related to enterprise.

Additionally, for traditional industries that are already established, if perhaps they want to transform their business we

could arrange an action plan for them and then help them carry out internal training. Transformation, after all, is a sort of internal enterprise.

Being an international institution, do you provide opportunity for foreigners to come to Hangzhou?

Yes, we have lots of international interaction, such as people coming here from Oxford, or people from here going to Stanford. Sometimes they're visiting companies. We can't help them come here to work, but to visit, study and experience. We'll probably have a few dozen foreigners come over each year. Last year we had a more; we had different universities send people over. The number from Oxford was particularly high – probably 70 or more. There were about 30 from Sweden, and over 20 from Denmark. But Oxford's was especially large: it was their MBA group.

IIE is an international institution that was born from Zhejiang University's global enterprise research centre in partnership with Stanford, Harvard, Oxford, Cambridge and Kingston universities with academic research as its foundation and education at its core, to nurture and support entrepreneurs.



Yao and Lee

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