

CHINA'S EMERGING VENTURE CAPITAL INDUSTRY – IN SEARCH OF EXIT  
STRATEGIES

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## Abstract

The practice of venture capital financing in China has been attracting much attention lately from China's policy-makers and the technology sector and from foreign venture capitalists who are interested in entering China's market. The enthusiasm of developing a venture capital industry in China has been carried beyond pure theoretical discussion and put into legislative and administrative actions. Various new laws are being drafted and introduced in the hope to replicate the Silicon Valley model. However, some US scholars have cautioned developing countries trying to duplicate the US venture capital practice. What are the appropriate steps China should take to develop its local venture capital industry?

Based on available data from venture capital organizations and interviews with venture capitalists, entrepreneurs, and government officials, this paper first explains to what extent there is an active venture capital "system" in China. What are the dynamics of this system and how does it operate? It provides some analysis and evaluation of this system and identifies lack of ways to exit as the chief problem that need to be addressed. The paper also reviews and analyzes the basic US scholarly literatures about the use of venture capital in the US, and the sequence of the US venture capital practice. China today has some of the key elements needed to attract foreign venture capital and to develop a domestic venture capital industry. However, problems exist, especially on the downstream side. The findings of this paper suggest that policy priorities should be given to resolving exit problems rather than focusing on fund raising. At the current stage, China should encourage companies to go public overseas. It's not the government's role to judge the quality of the companies and try to act as

a goalkeeper at the boarder.

The paper recommends an immediate reform of the overseas listing policy to allow firms to go public on Hong Kong GEM and Nasdaq. Meanwhile, China should speed up the legislation that allows cross border mergers and acquisitions. Policy reform should be made to allow foreign firms to acquire domestic start-ups, established firms, and not only firms under stress. From a long-term standpoint, a strong domestic GEM would be preferable to facilitate the financing of small and medium sized high growth enterprises. This, of course, depends on the improvement of securities regulation, accounting standards, and the development of intermediaries.

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