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**Individual Paper - Policy Memo**  
**“The Dilemma of Hong Kong's Startups - Inadequate Entrepreneurial or Startup**  
**Ecosystem”**

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To: Mr. Alfred Sit Wing Hang, JP (Secretary for Innovation and Technology of Hong Kong)  
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Re: The Dilemma of Hong Kong's Startups - Inadequate Entrepreneurial Ecosystem

## **Introduction**

With the rapid development of society, existing services, industries, and policies will be inevitably inopportune and become a limitation of the further plan. It should continue innovation to explore the potential interest and improve the difficulties to meet the demands of society and citizens, which is also a central idea of industrial innovation (OECD, 2015). As a member who wants to start a business on satisfying the needs with innovative products and services in the future, discovering the startup/entrepreneurial ecosystem in Hong Kong lacks sufficient and efficient support, which is not conducive to the further development of local startups. Thus, I would like to present the elements that are short of and provide suggestions, hoping these will contribute to the development of industrial innovation.

## **The Situation and The Further Recommendations**

It is well known that Hong Kong's emphasis on finances since colonial times has earned it the reputation of being the world's freest economy, and mainly supported by four industries, but with the growth of science and technology, Hong Kong's economic model should also change in the face of competition and demand from international innovative industries (HKUBS, 2020). Thus, in addition to increasing emphasis on secondary and tertiary economic activities, there are also attempts to promote the quaternary sector in 2015, providing new and technology-based solutions based on existing demands (WHub, 2018). The support policies of have indeed led to the initial expansion of the industry and demonstrated its potential, becoming the third most innovative region in Southeast Asia, East Asia and Oceania in 2019 (GII, 2019). However, it is worth noting that although such industries have started, the

business-oriented characteristics restrict the the development trend of startups (HKTDC, 2021). It manifested in three categories, and were formulated by Isenberg (2011) as six distinct domains of an ecosystem, which are conducive to the improvement of the entrepreneurial performance, including policy, finance, culture, support, human capital, and markets.

### **(I) The inefficient industrial policies and (II) The deficiency of stable and long-term financial support, and Improvements**

Firstly, the shortage of reputation of Hong Kong's startups does not fit the market environment and economic model, which leads it difficult to raise capital to obtain stable financial support and cooperation for sustainable and long-term development. According to Salter & Alexy's (2014) description of the nature of innovation, believing that innovation activities and startups mainly belong to relationship activities, which require cooperation and interaction with different objects to achieve effective and lasting growth; meanwhile, these processes involve long-term and expensive investments. To balance investment and return for sustainability, enterprises also need partners with marketing or manufacturing capabilities to drive business success. The Hong Kong Government also recognizes that startups need a lot of capital and resources to sustain them in the early stages of entrepreneurship and innovation, it has been launching corresponding assistance programs, such as the Enterprise Support Scheme to support local enterprises in internal research and development (R&D), encourages private sector investment in R&D with a maximum grant of HK \$10 million for each approved project (StartmeupHK, 2022). However, as Chan (2014) pointed out, most of the relevant policies and support projects are one-off and have no long-term input on the industry. A survey found that out of every 100 startups, 61% of Hong Kong entrepreneurs face business difficulties within the first two years (HKFYG, 2019). There are reflecting the deficiency of efficiency in supporting the startup companies and they can only sustain short-term growth.

When the support from the government is not enough to maintain the long-term development

of the startup and innovation industries, they need to look elsewhere, focusing on market research and proposals and persuading banks or other large companies to cooperate. But as mentioned, Hong Kong's economic model has been "solidified"; despite the growing entrepreneurial and innovation atmosphere, investors tend to invest in traditional or strong industries, and startups have fewer opportunities to obtain financing and lower valuations than their mainland counterparts (HKFYG, 2019). Moreover, to maintain business operations, some enterprises will adopt crowd-funding for financing, but due to the restrictions of the laws, equity crowd-funding is not allowed. However, it is worth noting that it is mostly based on the nature of public welfare, which is difficult to support the development of others without benefiting yourself.

There are two examples, although Powerstrap, a startup based in Hong Kong that focuses on smart wristbands received support, the founders also mentioned that the approach was challenging and would not convince investors without unique creations or mature industries are also unwilling to accept new enterprises (HKTDC, 2017). On the other hand, Cusoy, a mobile app that allows users to select restaurant dining plans based on their eating habits was an example of a failure in terms of lack of return and long-term financial support. Since the high cost of investment, they failed to enter the payback period due to the short start-up time and get trust and investment from banks (The Epoch Times, 2016). As a result, due to the Hong Kong government's inability to provide stable and appropriate support, startups lack the resources to achieve long-term development; the entrenched economic model also contributes to a business-centric environment that large companies are reluctant to invest in innovation projects, which weakens innovation atmosphere and is detrimental to its long-term growth.

When faced with the above limitations and difficulties, the Hong Kong government should play a role in the management of innovation and entrepreneurship to strengthen support and increase the channels of access to capital for companies. It is worth noting that the effective guidance and promotion of innovation of the government lie in providing financial support for R&D activities and startups so that the tax incentives or government purchase orders should be provided directly to these companies to help them grow. Meanwhile, in addition to

reforming the tax system to alleviate the financial difficulties of startups in the long term, the government should also continue to implement different support policies to pursue continuous and long-term goals. In the process of policy implementation, the government should divide appropriate welfare according to the rate of return of enterprises and allocate resources correctly.

Moreover, as mentioned the atmosphere of business in Hong Kong, leads investors to have a bias that the strengths are in finance, logistics, and professional services, so they are generally not interested in startups outside these areas. Thus, there should actively market local startups to different potential investors, matching startups with investors in the “Incubation Program”. The development of a local economic model depends not only on whether the industry can grasp the opportunity but also on the promotion and support from the government, especially in the financial and trade-oriented environment in Hong Kong, the quaternary sector will be less competitive and unable to achieve further and stable development.

### **(III) The lack of startup expertise and talent, and improvements**

It is undeniable that Hong Kong lacks experience in developing innovative industries due to its traditional economic model, thus failing to properly teach the technology and innovation skills of the new generation. The concept based on innovation and technology has only entered Hong Kong in recent years and has gradually expanded. There has also been an increase in the local startups and researches of I&T, with deliberate government initiatives; in fact, the sustainable development of these industries does not only require short-term creativity and imagination but also requires a large amount of technology and experience support (GovHK, 2018; HKTDC, 2021). There are many founders of startups who are unable to conduct in-depth research and development of innovative projects due to not enough professional knowledge in Hong Kong, such as lacking management experience and the ability to implement innovative technologies. That means local start-ups are only superficial successes, not deep ones.

As a result, apart from providing financial assistance, the government should also provide technical and knowledge support suitable for the local economy to entrepreneurs. For example, it should provide training programs, including research support, mentoring, and investor matching, to equip potential entrepreneurs to cope with the changing entrepreneurial environment. In particular, the Greater Bay Area is a new opportunity for Hong Kong youth to start a business, but most of them do not understand the mainland market, resulting in many difficulties in starting a business. The Governments, chambers of commerce, NGOs, and professionals should provide these companies with the appropriate assistance to implement innovative ideas and build international brands that affect the world; the young entrepreneurs in Hong Kong who want to start a business in there should also be prepared to re-learn the business culture and model, reaching and choosing a mature partner or talent from the mainland to start cooperation can improve the chances of success. It is worth noting that gaining access to markets other than Hong Kong also helps enterprises get long-term development opportunities and extend their life of enterprises.

## **Conclusion**

To conclude, the inefficiency of policy, finance, support, human capital, and markets in Hong Kong's entrepreneurial ecosystem lead it difficult for startups to thrive in the long run, with most companies declining in the third year. Thus, I put forward the above views and suggestions, hoping to contribute to the long-term development of startups in Hong Kong and reduce the limitations of development.

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