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Venture Capital Market in China: A New Approach to Innovation Management

Mercado de capital de riesgo en China: un nuevo enfoque para la gestión de la innovación

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RESUMEN

El propósito de este trabajo es llevar a cabo un análisis basado en la evidencia del estado actual del mercado de capital de riesgo chino y evaluar la realidad del escenario como calentar el mercado a una nueva crisis. Como resultado, el artículo demuestra que la razón principal de la aceleración del crecimiento similar a una avalancha en el mercado de capital de riesgo chino fue un error de cálculo en las acciones del Gobierno dirigidas a saldar los problemas en el mercado de valores interno en 2015. El artículo demuestra que, a pesar de los signos de sobrecalentamiento, todavía es prematuro hablar sobre la formación de una "burbuja" en el mercado de capital de riesgo.

Palabras clave: Capital de riesgo, desempeño de empresas emprendedoras, China

ABSTRACT

The purpose of this work is to conduct an evidence-based analysis of the Chinese venture capital market current state and assess the reality of the scenario like heating the market to a new crunch. As a result, the article proves that the main reason for the avalanche-like acceleration of growth in the Chinese venture capital market was miscalculations in the actions of the Government addressed to pay off the problems in the domestic stock market in 2015. The article proves that, despite signs of overheating, it is still premature to talk about the formation of a "bubble" in the venture capital market.

Keywords: Venture capital, entrepreneurial firms performance, China.

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INTRODUCTION

Today the traditional sectors that spurred Chinese economic miracle have become weaker - a trend reinforced by increasingly more expensive labor. The Chinese government hopes that both the private sector (SMEs for the most) and innovation will become the new drivers of the economy. Like so many trends in China, big government is the driving force behind this. Moreover, again, that might work. China has a labor force of 800 million, among whom 170 million have received higher education or possess high professional skills (Agten: 2017).

In 2016 China's ZTE Corporation overtook its rival Huawei Technologies as the biggest filer of international patent applications. In 2017 Chinese companies spent 14 times more money on R&D than in the year 2000. In comparison today only US companies spend more on R&D (Agten: 2017).

Especially in the internet sector, Chinese innovation is leaving its global mark. Chinese society is already more digitalized than their western counterparts. In 2016, 467 million smartphones were sold in China, and there are more than 730 million active internet users. The Chinese e-commerce market is merely gigantic and is predicted in 2020 to be bigger than the United States, Great Britain, Japan, France, and Germany combined (Agten: 2017).

WeChat is one platform for communication, marketing, payments, and e-commerce. All-in-one and made in China. Moreover, it has more than 900 million users.

Chinese tech companies such as Baidu, Alibaba, Tencent, and Xiaomi are also conquering the world with new products and services of superior quality and belong to the top ten of the biggest internet and technology companies in the world.

Silicon Valley is looking now more and more to China where innovation and entrepreneurship go hand-in-hand. The focus is especially on Shenzhen with its 30,000 technology companies - and a combined value of more than \$200 billion.

Chinese startups expand internationally from the very beginning, with increasing success. Nearly one-third of all unicorns are now coming from China (Agten: 2017).

In 2017 Chinese National Innovation System (NIS) became the leader to half of key scientific areas - materials science, computer science, mathematics and engineering (Lewin et al.: 2016; Shuyan, Fabuš: 2019). There is a serious reason to believe that by 2020 it will lead in the field of particle physics. In 2018, China launched the world's largest charged particle accelerator. The amount of both government and private financing for its construction exceeded \$6 billion. The success of Chinese specialists in the development of AI is impressive. Only in 2017, \$ 48,9 billion was spent on R&D in this area, which is 18,6% higher than in 2016. It should be noted that in the USA the expenditure growth was only 8% due to real budget cuts for R&D and S&T, which began after President Trump has taken office (The 2017 Global CVC Report, n.d.).

These successes of China are admirable. Over the past 20 years, its economic and innovative development has been the undoubted driver of growth, as they say, the "white stork" of the global economy. The rapid flapping of its wings created the growth pattern of the world economy. However, starting in 2014, the state of the Chinese economy causes more and more concerns. There are fears that the turbulence in the stock market that occurred in 2015, which the Government managed to suppress, could spread to the venture capital market. According to the global analytical agencies, the warming up of the Chinese innovation market is rapidly increasing. This situation creates the possibility of a "bubble," which at any moment can burst and leave investors without profits and invested money. Moreover, this will have a catastrophic effect not only on the innovation sector but also on the whole economy of China, as today it is driven by innovation.

THEORETICAL BASIS

Companies that want to look at the future of innovation must look not only at Silicon Valley but also at China (The Economist: 2016). Consequently, since its reform and opening up about four decades ago, China was mainly regarded as a country that imitates (Lewin et al.: 2016; Augier et al.: 2016). It is widely recognized that China, as a transition economy, compared with more developed countries, lacks many relevant legal and socio-cultural institutions, which nevertheless contribute to entrepreneurship and Schumpeter's innovation (Abrami et al.: 2014). The paradox is that China lagged behind Western Europe in the field of technological innovation at the dawn of the industrial revolution, despite the aggregated human capital and record inventions in the past. The most frequently cited explanations for this situation include weak domestic markets, as well as a lack of property rights as an incentive for entrepreneurs. This paradox, combined with the long Chinese history of totalitarian control and centralization of power has damaged freedom, ingenuity, and the creation of new enterprises that embody technological and economic development (Ahlstrom, Ding: 2014). However, despite the obstacles, economic growth with a focus on human capital (Li et al.: 2017), entrepreneurship and innovation are seen as key factors to China's future growth (Woetzel et al.: 2015), especially when two traditional economic engines are low labor costs and significant capital investments may not be as efficient growth drivers as they used to be (Liu et al.: 2017). According to McKinsey, China needs to increase annual gross domestic product (GDP) by 2–3 percent directly from innovation and new enterprises in order to maintain annual GDP by 5.5–6.5 percent in the next decade (Woetzel et al.: 2015). This situation helps to explain China's recent initiative to promote "Mass Entrepreneurship and Innovation by All" as a national strategy for economic restructuring and improving, eliminating the contradictions between traditional business and government practices and the urgent need to promote innovation and new ventures in China. There are also questions about whether small and medium-sized enterprises (SMEs) in China can use their knowledge opportunities developed as a result of internationalization to compete domestically, in the face of a downturn in developed markets (Chin et al.: 2015). Unlike other monographs on the topic "Innovations in China," "Innovation and Industrial Development in China" argues that the effectiveness of the organizational system in the field of technology and innovation links to the structure of the distribution of its strategic resources, the mobilization of organization members and the institutionalization of knowledge accumulation (Feng: 2019). Yet the question of China's progress toward global technological leadership remains an open and hotly debated subject (Zhang: 2016; Zhou et al.: 2016).

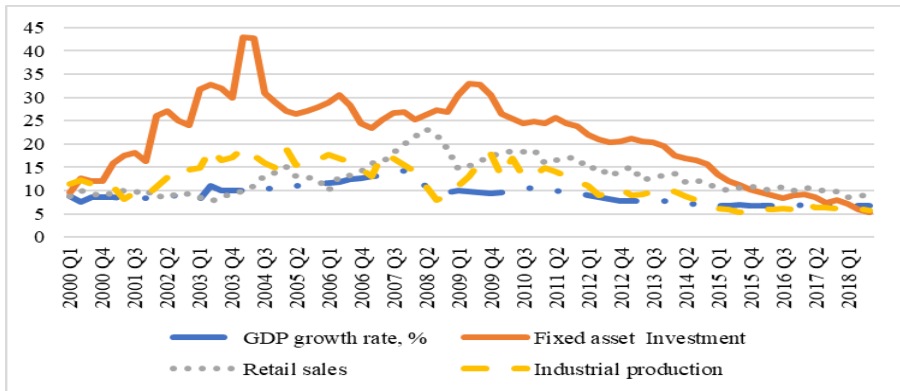
The purpose of this article is to analyze the current state of China's venture capital market and identify the reasons for its avalanche-like growth. This will provide an evidence-based answer to the question: Are the fears about the development of a "bubble" in China's innovation sector real?

RESULTS

The white stork becomes a black swan. The recession of the Chinese economy

Since 2012, China's economy has been in a hidden recession. We must pay tribute to the fact that this issue is primarily related to the global problems of the world economy fading prosperity. By 2014, everything in China had slowed down: the growth rate of investment, industrial production, manufacturing, consumption, retail trade, money supply growth. All these indicators reached their six-year minimum (Fig. 1). It became apparent that the model of extensive growth, based on the alternation of waves of import substitution and export orientation with a gradual performance increase in the production chain is close to exhaustion. This happened at a time of reduction in global solvent demand (The 2017 Global CVC Report, n.d.).

Continuing massive internal investments in infrastructure projects are not sustainable mainly because the most productive projects have already been completed, resulting in diminishing returns (or even no returns at all).



Compiled by the author based on web-resource Trading Economics (n.d.)

Figure 1. Indicators of a slowdown in China's economy

Since 2014, the global economy as a whole has cooled down, consumer and industrial activity are declining. The situation is becoming more real when China has nowhere to sell its goods. Moreover, about 50% of China's GDP is made up of revenues from deliveries to foreign markets. It turned out that, despite all the efforts of the big Government, domestic consumption could only draw out a third of the Chinese economy by 2017, and this is not enough to maintain the previous growth rate at 14%. In order to artificially keep economic growth, to prevent the economy from rolling into a depressive-crisis state, the PRC State Council decided to replace falling export demand with domestic consumption. Perhaps the idea to redirect the vast savings of consumers to finance domestic investment and bring them out of the shadows was not bad. To this end, China has strongly liberalized the domestic financial system: the stock market, the opening of personal accounts, trading, the lending system. The results were unexpectedly sad (KPMG Venture Pulse: Global analysis of venture funding: 2018).

Similarly, the rise of companies such as Alibaba, Baidu, Netease, Sina, Sohu, Tencent, and Xiaomi have identified the digital service economy as a powerful new engine of economic growth. China has the most successful startup ecosystem outside the United States. However, it is essential to recognize that in many innovation related industries, the Chinese government has closed its market to international competition.

Beijing, Hangzhou, Shanghai, and Shenzhen have vibrant startup ecosystems, indicating the possibility that China can succeed in building innovatory and entrepreneurial capabilities that could evolve into new powerful drivers of economic development (Frietsch, Schüller: 2010; Yang, Černevičiūtė: 2017). It is clear that China aspires to – indeed, believes that it must – develop an innovative economy. Since 2005, China has aggressively increased its domestic expenditures on R&D at a compound annual growth rate of approximately 20 percent (from \$55 billion in 2005 to \$257,8 billion in 2013) (National Bureau of Statistics, n.d.). However, as many people in the government recognize, China must eliminate the many institutional barriers to innovation and entrepreneurship that still exist, as well as transform its university-based science, technology, engineering, and mathematics (STEM) teaching and research.

Domestic loans and the stock market "bubble"

By 2014 loans for more than \$20 trillion have been provided in China. This is superior to the universal indicator of all QE in the developed markets of the world (KPMG Venture Pulse: Global analysis of venture funding: 2018; Xu et al.: 2018). Of these, in the aggregate, the population was given about \$ 2,8 trillion. Most of this money leaked to the stock market. One of the reasons was the liberalization of private equity and hedge funds registration that was launched by the Government in February 2015. In addition to the simplified registration (simply the application form), they were allowed to raise money from retail investors through banks

and brokerage cantors. The minimum contribution to a typical Chinese hedge fund is \$ 161,000 (from Western funds from \$ 1 million), the minimum investment period is 12 months. By June 2015, 56 out of 12,285 registered hedge funds manage assets over \$ 1.6 million (KPMG Venture Pulse: Global analysis of venture funding: 2018). Most of the money that came to the stock market belongs to unqualified investors and are related to short-term loans. They are directed not to the development of the real sector, but to short-term auction speculations, which are called "portfolio investments" from political correctness.

It was this money that fueled the "bubble," supporting the insanely overbought and bloated stock quotes of Chinese companies. The cost of the stock market by the end of 2015 exceeded \$10 trillion. Without some reason, a spasmodic growth of capitalization of the decaying Chinese economy began. The index on the Shanghai Stock Exchange, in less than nine months, rose from 2,000 to 5,200 points (KPMG Venture Pulse: Global analysis of venture funding: 2018). The size of the entire Chinese stock market (market capitalization) exceeded five times the American one on the eve of the 2008 crisis. For comparison, in Japan, the ratio of financial leverage to capitalization of company shares traded on the stock exchange is less than 0,5%, in the US – 2,2-2,7%, in South Korea - 0,8%. In China, this ratio exceeded 9% (Zhaohui, Yongbo: 2013).

In mid-2015, the economy crunch happened and, according to the author, it was inevitable. The Shanghai Composite Index collapsed by 28,5% and closed at 3,725.56. The profits of industrial companies in China fell by 0,8% in June compared with previous year (Zhaohui, Yongbo: 2013). It became apparent that the hot "bubble" heated in the stock market began to collapse. Moreover, the government did not recognize this, and was forced to take unpopular measures in order to stop this process. Since 2016, short sales of securities to all shareholders were limited. Exceptions were made for shareholders in the high-tech sector. Representatives of the 21 largest brokerage companies voluntarily-forcibly agreed not to sell shares until the Shanghai Composite Index rises to 4200 points.

1.1. Effects of a Stock Bubble on China's venture capital market

Of particular interest in this study are the qualitative changes in the Chinese stock market that occurred during the analyzed period (Table 1).

Table 1. Transformation of the qualitative composition of the stock market in China in the period from 2013 to 2018

Funding means	2014	2015	2016	2017	2018
Stocks and bonds	50%	60%	60%	48%	55%
Direct investment	36%	25%	30%	20%	32%
venture capital fund	9%	10%	15%	27%	8%
Other funds	5%	5%	5 %	5%	5%

Compiled by the author. Source: OECD Reviews of Innovation Policy. China (n.d.).

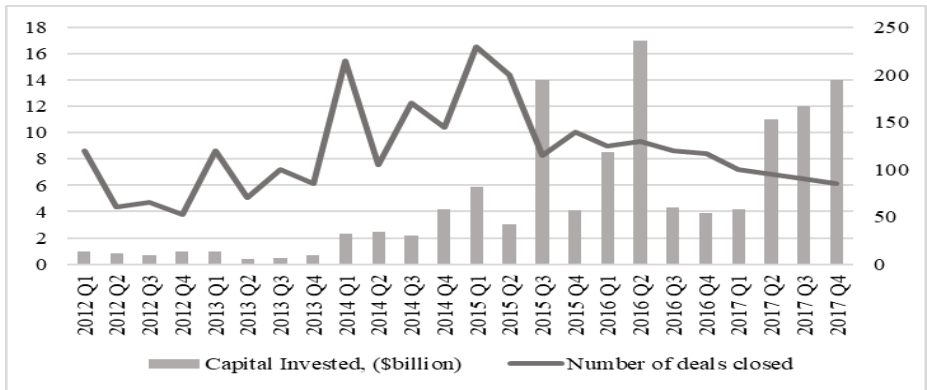
Analysis of the data presented in the Table 1 suggests that since 2014 there has been a steady increase in the number of venture capital funds. Their growth has especially increased after the exclusion of high-tech companies from the prohibitive "weekend" measures taken by the Government in 2016 (The China Effect on Global Innovation: 2015; China Engineers Innovation Index: 2015). The permits for foreign investment, which also began in late 2015, also played a significant role in this process. Investors in China, possessing colossal (mostly borrowed) funds, were simply forced to go to Chinese venture capital funds, where the yield is much higher. This is certainly a risky investment more like a high-stakes poker game: a big risk, but also a big reward. In the first half of 2016 alone, Chinese venture capital funds invested a record \$ 37,2 billion in national startups, which exceeds this figure for the entire 2015. As a result, in 2016, the size of venture capital market in China reached a level of \$ 338 billion (Global Innovation Index: 2018). It is obvious that the Chinese venture capital investment market, starting from 2016, is experiencing a rapid rise. By 2017, this rise has acquired the character of an avalanche. At the end of 2017, the total investment of China's venture capital increased by

18% compared with the previous year. The number of transactions made by these funds over the same period increased by 19%. China's venture capital accounts for about 20% of all venture capital investments in the world (National Science Board. Science & Engineering Indicators: 2018).

1.2. China's venture capital investments

China's innovation system is developing rapidly. The reason is the vast financial flow that goes to it. Only the budget of the Ministry of Science and Technology of the PRC for five years (until 2021) will amount to \$ 1,580 trillion (Ahlstrom, Ding: 2014). Many essential roles belong to private equity.

By 2017, China's venture capital market is a complex multi-step mechanism. The basis of it is 780 public venture capital funds. By 2016, their financial volume reached a record level of \$ 2,3 billion (Fig. 2).



Compiled by the author. Sources: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. (2018)

Figure 2. The growth of public venture funds budget in the period from 2011 to 2017

Besides, since 2015, private venture capital funds are increasingly coming into play. Only in 2015, investors created 597 of them. Their newly formed capital amounted to \$30 billion. In 2017, there were 2800 of them (more than 1,000 at the investment stage) with assets of \$700 billion (Jiang et al.: 2014). Private capital is playing an increasingly active role in China's venture capital market. Confirmation is the analysis of the data presented in the tables 3 and 4.

Table 3. Five largest venture capital funds as for 2015

Investor	Stage of financing	Assets under management, \$ million
China Construction Bank	Venture investment (later stages)	29,7
Postal Savings Bank of China	Venture investment (later stages)	18
China Investment Corporation	Venture investment (later stages)	8
Ping an Insurance Group	Venture investment (later stages)	7,8
State Administration of Foreign Exchange	Venture investment (later stages)	4,7

Compiled by the author based on web-resource: National Science Board, Global Analysis of Venture Funding, KPMG Enterprise, Prequin special report: Asian private equity and Venture Capital.

Table 4. The five largest venture capital funds for April 2017

	Assets under management	Stage of financing
GSR Ventures	\$2 billion	All Stages
Tencent	\$ 71,8 billion	All Stages
Morningside Venture Capital	\$1.7 billion	All stages
Bertelsmann Asia Investments	\$2 billion	All Stages
ZhenFund	\$3,8 billion	Seed
Shenzhen Capital Group Co	\$4.3 billion	All Stages
Qiming Venture Partner	\$2.6 billion	All Stages
Sequoia Capital China	\$5,8 billion	All Stages
IDG Capital Partners	\$20 billion	All Stages
SB China Capital (SBCVC)	more than \$2 billion	All stages

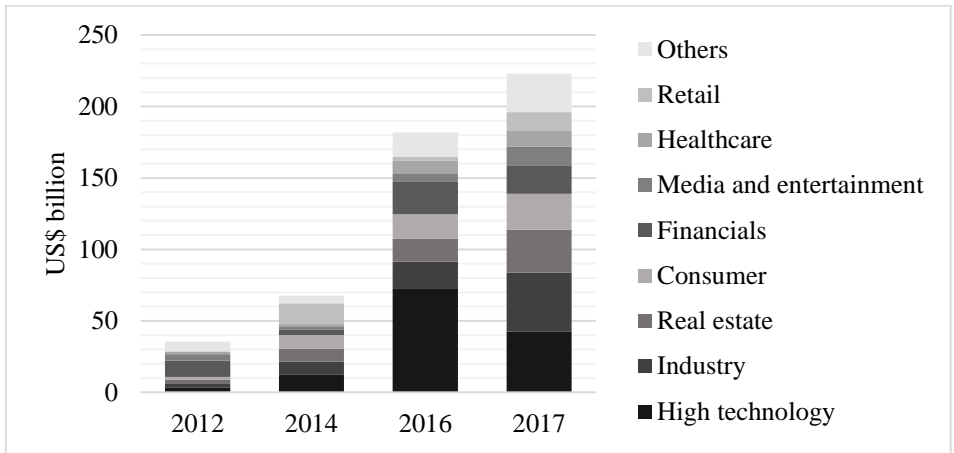
Compiled by the author based on web-resource: National Science Board, Global Analysis of Venture Funding, KPMG Enterprise, Preqin special report: Asian private equity and Venture Capital.

Analysis of the data presented in Tables 3 and 4 shows that by 2017 a specific transformation was taking place in the venture capital market in China. State policy to curb the growth of the stock market, without changing the strategy in the field of lending to the population, caused an avalanche-like growth of private financial investments in venture capital investments. This single bag of money goes to private investment funds, which allowed them to become leaders. The peculiarity of the Chinese venture capital market is that the most generous investors are not funds, but the largest technology companies.

Tencent, Alibaba, and Baidu are in the list of the most active investors. If the top 5 largest American technology companies spent \$ 228 billion on dividends in 2015–2017, then the top 5 Chinese - only \$ 10,7 billion. The money saved was spent on R&D and investment (Global Innovation Index: 2018).

In addition to the organizational forms already listed above, the business angel investment market is becoming increasingly prominent in the venture capital market in China. This is due to the growth of the so-called HNWI - individuals with liquid assets of over \$ 1,6 million. By 2017, their number exceeded 1,2 million people (Reshetnikova: 2018). The total amount of private capital reached a level of more than \$ 25 trillion. Like everything else in China, the angel investment market has specific national characteristics, mainly in the form of its organization. The analysis of statistics allowed the author to reveal that the leading role in this market belongs to the so-called clubs of business angels, which unite investors, to diversify risks and investment objects. In 2016, there were more than 350 such clubs (150 in the stage of active investment). The total volume of their assets exceeded \$ 9 billion. The most significant volume of all venture capital investments, namely more than 50%, goes to the growth of Internet solutions, IT and telecommunication technologies (Fig. 3). So, in 2017 only in the high-tech SME sector, 5812 angel transactions were registered, with a total investment of about \$ 4 billion disclosed (two times more than in 2015) (Guo, Jiang: 2013).

The most favored sectors for PE/VC in 2017: high technology, financial tech, media and entertainment, healthcare, real estate, and consumer.



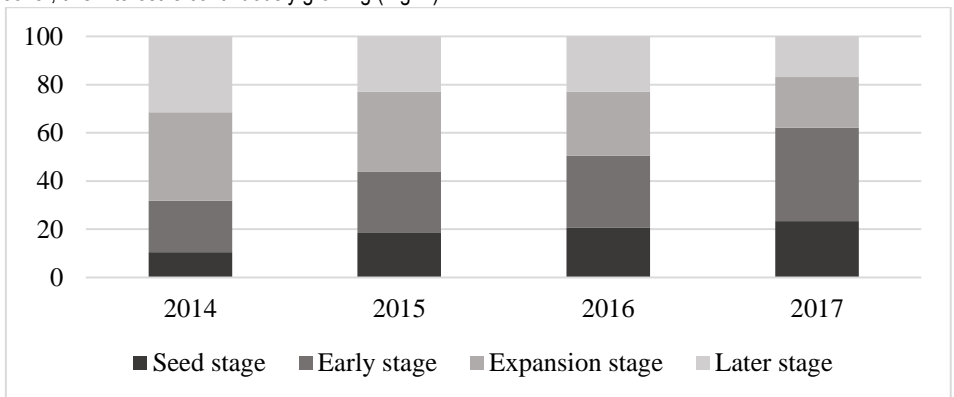
Compiled by the author based on web-resources: China Venture and PwC analysis China Private Equity/Venture Capital Review (2017)

Figure 3. Top 10 main industries for China's venture capital investment

Here are the realities of China's venture capital market. Since 2015, national private equity has poured into arena. These investments are different in form and scale. The growth trend of the number and scale of business angels, private venture capital funds and agencies cannot but worry. Rescue, according to the author, might be hiding in the national characteristics of China's venture capital investments, which are already becoming apparent today.

1.3. National features of China's venture capital investment

The national peculiarities of the Chinese venture capital market include not only its scale and the increasing volume but the distribution of investments across the stages of project maturity (Dauterive, Fok: 2004). In China, projects at the seed and early stages enjoy the most significant interest among investors. Moreover, this interest is continuously growing (Fig. 4).



Compiled by the author based on web-resources: China Venture and PwC analysis China Private Equity/Venture Capital Review (2017), Prequin special report: Asian private equity and venture capital (2018)

Figure 4. Changes in venture capital investments by project maturity from 2014 to 2017

If in 2015 the number of investment transactions at the early and seed stages was 44%, then in 2017, according to the disclosed data, it reached 63,2% (China Engineers Innovation Index: 2015). Moreover, this is even though in 2017 there is a cooling interest in seed and early stages in the entire global venture capital market. So, in the US, the number of such transactions in 2017 fell by 30% (Global Innovation Index: 2018). The median size of the transaction in all early rounds of venture financing is also growing in China. According to the author, the main guideline in the strategy of most Chinese investors (public and private funds, business angel clubs) is the "spray and pray" strategy: they want to invest in as many startups as possible in the early and seeding stages. So, for these tactics, there are certain reasons.

Seed investment in China is very high. They range from a few million to tens of millions of dollars. Thanks to this, the launch time of a new project from the idea to production in Zhongguancun, thanks to its resource base, is only three to six months (Reshetnikova: 2018). In 2016 alone, more than five million new companies were registered in China, and over 300 000 of them are engaged in IT. Add here companies in the field of biotech, additive technology and rapidly developing AI technologies. The scale of the high-tech sector of the Chinese economy has grown enormously and it is the main beneficiary of the financial venture capital avalanche.

Nowhere in the world entrepreneurs can start so fast. Unfortunately, according to the author, the situation is far from rosy. Chinese startups make billions out of nothing by satisfying needs of local customers, which are not so sophisticated. In 2017, the average time for Chinese start-ups to go for IPO increased by about 20%. According to statistics, 90% of them did not live up to round C (China Engineers Innovation Index: 2015). Many of them enter the market after the acceleration program, which Microsoft Ventures Global Accelerators has in China. After successful IPOs, they are absorbed by older comrades like Baidu and Alibaba. The purpose of acquisitions is often very prosaic - to expand competence or eliminate competition. The confirmation is a significant increase in the number of M&A's in the high-tech sector that began in 2016. In 2014, this is 851 transactions for \$ 47,5 billion dollars and 1200 transactions for \$947,5 billion in 2017.

China is rapidly growing and feeding up its "unicorns" (companies with a capitalization of more than \$1 billion), the total number of which by 2017 reached 55 companies, which is 30% of the world total. As a result, there are categories of investors that do not core for the venture capital market, and the volume of financing for venture projects is growing. The circle on Chinese venture capital market has closed. Its current reality: the warming up and the beginning of pumping a new "bubble." Moreover, this, of course, is a new risk.

Analysis of the venture capital market in China helped the author to obtain evidence on the beginning of its warm-up. The reason is the strategic miscalculations of the big Government followed by overcoming problems in the stock market in 2015. The exclusion from the restrictive measures for short sales, IPO, and the sale of securities to shareholders of high-tech companies yielded mixed results. Of course, this contributed to the rapid growth of the high-tech segment, which allowed China to avoid drowning into deep recession. Also, everything would be fine if it were not for the Chinese scale. To diversify their losses, investors simply had to channel their finances (newly borrowed) into the high-tech venture capital market. Hedge funds and asset management companies have increased their investments in start-ups in search of better returns, and corporations to maintain and improve their position in the market. Investors are forced to take risks, expecting that a breakthrough of at least one project makes it possible to cover all credit costs and increase investments.

DISCUSSION

Since 1978, China has experienced the fastest economic growth among all countries in world history and the fastest growth in living standards among all major economies. In one generation, China has gone from a "low-income economy" to the brink of achieving a "high-income" status according to World Bank criteria.

Achieving this will double the population living in high-income countries around the world. Unique "Chinese characteristics sometimes explain this extremely rapid development. Although the combination of

global forces driving economic growth is unique in China and provides unique "Chinese characteristics," they can operate throughout the global economy. China's political response to the international financial crisis is much more effective than in other large economies (Ross et al.: 2016). According to the author, the idea of the Chinese government to redirect the vast savings of consumers to finance innovative domestic companies and projects and bring them out of the shadows was not bad.

These innovations have helped advance the Chinese economy by increasing its efficiency and lowering transaction costs. Thus, rapid economic growth in China is accompanied by an improvement in the quality of life of the Chinese (Lo et al.: 2019). Some scientists argue that China's economic growth is thus characterized by significant "incentive dependence" (Liu et al.: 2015).

The author agrees that today, the volume of venture investments is avalanche-like. Investors invest money earlier than usual, and less time is spent between successive rounds of investment. However, the situation in the venture capital market cannot but cause concern. According to the author, beating the signal drums is premature. Rather, this situation is more like a "mania to open a business" in response to weaknesses in government actions.

Venture capital (VC) is increasingly recognized as a key tool for entrepreneurship and innovation. The emergence and expansion of the Chinese venture capital sector since the late 1990s has not only been linked to China's fast-growing economy and huge domestic market. As a result, China has seen explosive growth, especially of domestic funds and venture capital companies, but it could be at risk for both American-style financing and Chinese-style corruption.

The growth rate of China's economic activity and technical potential is higher than in the United States and other countries of the Organization for Economic Co-operation and Development (OECD) (Deutch: 2018).

This view is consistent with past literature that Chinese culture focused on the distance of power and harmony, often through discussions, trial and error experiments and creativity (Zhang & Zhong, 2016), although others disputed rigorous cultural explanations and look at different institutions that encourage (or hinder) innovation (Ahlstrom et al.: 2018).

A student survey conducted by China Daily in April 2017 clarifies the situation in the venture capital market. It turned out that 90% of them want to become entrepreneurs. Today, a startup in China is a dream. This inspires hope and influence of Chinese educational principles - unconditional submission (obedience) to leadership (senior). Chinese entrepreneurs are different from Western ones. They are less creative than their Western counterparts, but more executive. They are more "operators" than "innovators." At the same time, the Chinese government is assessing the problems of the national enterprise. Despite stabilization in the stock market, many restrictions on foreign investment, short sales, IPOs and the sale of securities were lifted. Given the high risks of venture capital investments, these measures should certainly lead to a slowdown in their growth rates.

CONCLUSION

For 20 years China was a "white stork" pulling the world economy forward. Its rapid economic growth and innovative breakthrough has been a growth point of the world economy. A special role in the rapid innovation surge in China belongs to the growth of venture capital investments, which began in 2014. Its unprecedented volumes, and most importantly the growth rate, had no analogs worldwide. However, since 2017, more and more opinions are heard that China's economy is turning from a "white stork" into a "black swan," whose wing flaps are just beginning. So, is there a positive answer to the question of warming up another "bubble" in the Chinese venture capital market? According to the author, we are dealing with the onset of overheating. Moreover, the efficiency with which the big Government began to fight it gives hope that, like in 2015, it will be able to extinguish this overheating.

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