

# LIMITED SPACE, UNLIMITED GROWTH

## An ancient city grows innovatively by developing its digital economy

There is a famous Chinese saying that "in heaven, there is paradise, on earth, Hangzhou and Suzhou." Hangzhou, capital of east China's Zhejiang Province, is reputed for its enchanting scenery and abundant natural resources. With the boom in information technology (IT) and Internet Plus industries, the city now has grown into a paradise for innovation and entrepreneurship.

### A flourishing industry

As reform and opening up entered a new phase in China, Hangzhou seized the opportunity to develop its digital economy and its efforts have paid off. Today, it is known as "the capital of e-commerce" because of its robust Internet industry.

Hangzhou's Internet industry has maintained an annual growth rate of more than 40 percent, higher than that of megacities such as Beijing and Shanghai. Its Internet companies account for 6.5 percent of the total nationwide, only behind Beijing, Shanghai and Shenzhen, according to a report on the Internet industry published by Lagou.com and NetEase's joint Innovation Center in October.

Hangzhou had 21 unicorns as of the end of October—startups in emerging industries valued at more than \$1 billion. Though fewer than Beijing's 83 and Shanghai's 34, it outpaced Shenzhen's 18, according to ITjuzi, a business information service provider focusing on the Internet industry.

In 2017, the value added of Hangzhou's information industry accounted for more than one quarter of the city's GDP, growing at 21.8 percent and contributing more than 50 percent to the economic growth of the whole city, according to the local government's work report released at the beginning of this year.

Ye Rong, deputy mayor of Shangcheng District, used the city's two famous landmarks to describe the change in the city. "We are striding from the West Lake era into the Qiantang River era," he told *Beijing Review*.

West Lake and the Qiantang have distinctly different personalities. The former, with gently rippling water, is regarded as a suave beauty who always charms, no matter whether wearing plain clothes or gaily made up. The latter is famous for its spectacular, powerful waves that sometimes surge on the banks.

"Tourism was at the heart of the West Lake era. Hangzhou, a picturesque tourist destination, impressed people with the landscape south of the Yangtze River," Ye said. "Now it is not only a tourist city with exquisite scenery, but also a vibrant city full of innovation."

With urbanization, big cities are facing the common challenge of development slowdown caused by limited urban space and resources. Hangzhou is breaking this bottleneck by developing its digital economy.

Shangcheng is one of the oldest and smallest districts in Hangzhou with an area of 18.1 square km. It was where the royal palace located in the Southern Song Dynasty (1127-1279). "Our district covers a limited area geographically, but our development space is unlimited," Ye said.

Ye said emerging industries' contribution to the district's economy has surpassed that of traditional industries. The digital economy has become a pillar industry, alongside finance, cultural and creative industries, and modern commerce. It can boost the development of traditional industries by enhancing their value and change consumption by upgrading habits. "In the past, people regarded the Internet merely as a tool, but now they find it to be a resource too," he added. "[By harnessing the Internet] we can finally realize our development motto of 'limited space, unlimited growth.'"

### An evolution leader

Hangzhou's booming Internet Plus industry has benefited from two factors. One is the hi-tech atmosphere jointly created by its Internet giants and

universities. The other is the local government's preferential policies to support Internet innovation.

Hangzhou hosts the headquarters of the Alibaba Group and the offices of NetEase. Alibaba topped the list of the 100 biggest Internet enterprises in China in 2018 jointly released by the Internet Society of China and the Ministry of Industry and Information Technology, while NetEase was fifth.

Alibaba is famed for its annual shopping spree that started in 2009. Since then, every year it has concluded with colossal sales, breaking the previous year's record. This year's bonanza on November 11 generated \$30.8 billion of gross merchandise volume, an increase of 27 percent year on year. The group's CEO Daniel Zhang confidently proclaimed, "Looking ahead, Alibaba will continue to lead the evolution toward the future digital economy and lifestyle."

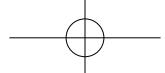
Many of Hangzhou's Internet-related companies have some link to Alibaba. Some business starters are former Alibaba employees. Some obtain financing from it. Li Zi, General Manager of Hangzhou Findland Information Technology Co., told *Beijing Review* that she worked for Alibaba for eight years, when she was in marketing. "Alibaba has a very open-minded culture of encouraging employees who are starting their own business," Li said.

Formed in partnership with Google in 2014, Findland helps Chinese companies' overseas expansion. "We serve 200 to 300 clients every year. Our sales volume this year is double last year's," Li said.

Zhejiang University, one of China's top universities, prides itself on its culture of innovation and entrepreneurship. The university is also renowned for the number of business startups it has fostered. Its researchers are making an impact in areas like artificial intelligence (AI), assembling technology for large aircraft, clean energy, ocean technology, industrial control technology, and global public health initiatives for the prevention and treatment of infectious diseases.

In addition to Zhejiang University, a number of

By Ding Ying & Wang Hairong



# China Focus

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Wang Kai (center), founder and CEO of Hangzhou-based Xiaowanzi, checks out the company's new games with colleagues

private institutions have emerged in recent years. Westlake University, inaugurated on October 20, is a private university that has already attracted dozens of internationally renowned scholars. Hupan University, founded by Alibaba founder Jack Ma and several entrepreneurs and scholars in Hangzhou, aims to cultivate the next generation of Chinese entrepreneurs.

The local government has also come up with preferential policies to encourage innovation and startups. According to the latest policy published in August, startups including Internet-related companies can enjoy a subsidy of 5,000-20,000 yuan (\$725-\$2,900) every year. College graduates who start a business can receive free funds between 20,000 yuan and 200,000 yuan (\$2,900-\$29,000) from the government if their projects make the grade. Once their programs reach the national level, the enterprises can win an award of 300,000 yuan (\$43,500). Moreover, the local government can also subsidize their office space rent.

Bigdata Workspace, an incubator started in 2015, is located in one of the tall office buildings crammed with Internet companies in Shangcheng. The incubator has standard facilities for startup founders: office rooms, private telephone rooms, conference rooms and a cozy coffee shop. It also provides supporting services such as printing and meeting services and technology support.

The incubator has tutors for startups, who range from CEOs, professors and government officials to investors who can provide technology, policy, legal and financial consulting services, said Yu Lu, Operation Director of the incubator's mother company Winkind Smart Park Technology (Hangzhou) Co. Ltd.

Bigdata Workspace has a three-stage development plan: At the first stage, be a makers' space; at the second stage, incubate internal and external cloud computing projects; and at the third stage, invest in incubator-related services. Currently, 13 companies are being incubated in the workspace. More than 30 have already graduated and moved out.

According to Yu, startups choose the incubator center also due to the cheaper costs, especially the rent, as the incubator receives financial support from the government to encourage startups.

## A smart city

Besides education and policy support, Hangzhou, with its livable environment, relatively moderate cost of living, and concentration of science and technology resources, has attracted a large number of talented IT professionals from other cities.

Ding Siyu, a 22-year-old who worked for an IT

company in Beijing, came to Hangzhou several years ago with her boyfriend. Now she works with Xiaowanzi, a leisure game producing company.

"We earn similar salaries here but the rent is much lower than in Beijing. Also, in Beijing, people normally spend hours commuting. Here in Hangzhou, it takes us only 30 minutes to go to work. And the climate and air quality are better than in Beijing," Ding said.

Today, Hangzhou has become a digital city. People can go anywhere and buy whatever they want with their smartphones using the Alipay app. Hangzhou was ranked the world's 20th smartest city based on its performance in 2017 by Juniper Research, a UK-based company that is one of the leading analyst firms in the mobile and digital tech sector. The organization gauges cities based on their use of the Internet of Things and other relevant technologies to improve their infrastructure.

In such a smart city, residents can pay for their commute, access medical services, order food, get an invoice and do many other things by simply scanning barcodes or QR codes with their phones. ■



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