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Enterprises Exploration from Governance to Prosperity: A Glimpse of Hong Kong's Entrepreneurial and Investment Environment

Kaiwen Li[1]

[1] University of Glasgow, Glasgow, UK

Correspondence: Kaiwen Li, University of Glasgow, Glasgow, UK.

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Abstract

This paper provides a comprehensive analysis of Hong Kong's evolving entrepreneurial and investment landscape, charting its strategic pivot from a traditional, finance-centric economy towards an innovation and technology (I&T) hub. It examines the local venture capital (VC) environment, startup ecosystem dynamics, the structural composition of its listed companies, and the impact of recent transformative government policies, primarily focusing on the period from 2015 to 2022. The study reveals a critical dichotomy: while Hong Kong's VC industry is nascent compared to regional counterparts like Shenzhen, it demonstrates significant growth in both investment scale and its contribution to the regional GDP. However, this growth is heavily concentrated in fintech and service-oriented sectors, exposing a systemic underinvestment in deep-tech domains such as biotechnology, new materials, and advanced manufacturing. An analysis of Initial Public Offerings (IPOs) reinforces this observation, showing a market historically dominated by traditional industries, although a nascent and crucial shift towards new economy companies is emerging. The paper argues that a fundamental structural challenge persists in the form of a mid-stage funding gap (Series A/B), which stifles the growth of promising startups. We conclude that recent government initiatives, including the establishment of the Hong Kong Investment Management Co., Ltd. and substantial R&D support schemes, are vital catalysts for fostering a more diversified and resilient innovation ecosystem. However, sustained success will hinge on bridging the mid-stage financing chasm, cultivating a more risk-tolerant investment culture, and strategically aligning policy with the goal of building a globally competitive deep-tech sector.

Keywords: venture capital, startups, economic diversification, innovation policy, entrepreneurial ecosystem, greater bay area, fintech, deep tech, IPO market

1. Introduction

For decades, Hong Kong has stood as a paragon of international finance, trade, and logistics, its skyline a testament to its success as a global economic powerhouse. Built on a foundation of free-market principles, the rule of law, and a strategic geographic location, its economy has been characterized by high efficiency and a focus on high-value service industries. However, the dawn of the 21st century has presented Hong Kong with a new set of complex challenges that test the resilience of its traditional economic model. The meteoric rise of neighboring mainland cities, particularly Shenzhen, as global technology and innovation hubs has created intense regional competition. Simultaneously, global economic uncertainties and a growing recognition of the vulnerabilities associated with an over-reliance on finance and real estate have underscored the urgent need for economic diversification.

In response to these pressures, the Hong Kong Special Administrative Region (HKSAR) Government has initiated a strategic and deliberate pivot towards becoming a globally recognized Innovation and Technology (I&T) center. This ambition is not merely a matter of economic strategy but a fundamental reimagining of Hong Kong's future identity [1]. The goal is to cultivate a vibrant, self-sustaining ecosystem where homegrown innovation can flourish, attracting global talent and capital, and creating new engines of economic growth. This transition involves nurturing a dynamic startup culture, developing a robust venture capital market, and fostering deep linkages between academia, industry, and government.

This paper seeks to provide a detailed examination of Hong Kong's progress in this ambitious transformation. It analyzes the key components of its burgeoning entrepreneurial and investment environment, offering a data-driven perspective on both the successes achieved and the structural hurdles that remain. By dissecting the local venture capital landscape, tracking the trends in startup formation and industry focus, analyzing the composition of its publicly listed companies, and evaluating the efficacy of recent government policies, we aim to construct a holistic picture of Hong Kong's journey from a traditional financial center to a prospective innovation powerhouse. The analysis focuses primarily on the critical period between 2015 and 2022, a timeframe marked by significant policy shifts and a notable acceleration in ecosystem development.

2. An Analysis of Hong Kong's Entrepreneurship and Venture Capital Environment

2.1 Local Venture Capital Environment: A Nascent but Growing Force

2.1.1 Annual Investment and Regional Comparison

A comparative analysis of venture capital activity between Hong Kong and its northern neighbor, Shenzhen, reveals the scale of the challenge and the nature of Hong Kong's current position [2]. While Hong Kong's VC market is expanding, it remains significantly smaller than Shenzhen's. In 2021, the total venture capital investment in Shenzhen was approximately 3.8 times that of Hong Kong. This disparity is even more pronounced when viewed relative to economic output; in 2015, Hong Kong's venture capital investment constituted a mere 0.12% of its regional GDP. By 2021, while showing improvement, this Figure 1 was still dwarfed by Shenzhen, whose proportion was 3.3 times higher than Hong Kong's.

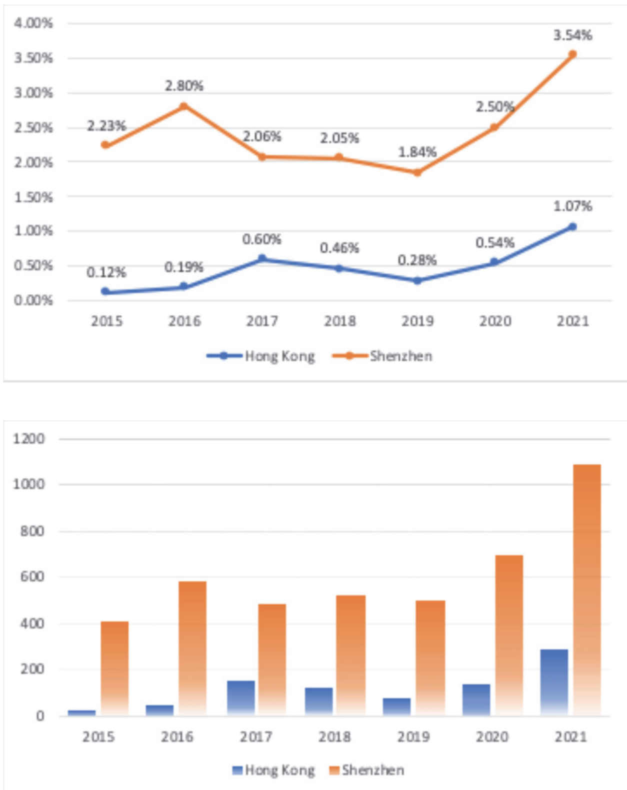

Figure 1. Comparison of venture capital between Hong Kong and Shenzhen from 2015 to 2021 (the left picture shows the proportion of regional GDP, and the right picture shows the investment scale)

This gap can be attributed to several factors. Shenzhen benefits from its status as China's original tech hub, its deep integration with the Pearl River Delta's vast manufacturing supply chains, and a policy environment explicitly designed over decades to foster hardware innovation and large-scale tech enterprises. In contrast, Hong Kong's VC ecosystem is younger and has historically been more fragmented, with capital flows often directed towards more traditional asset classes like real estate and public equities. However, the trajectory is positive. The absolute scale of venture capital and its proportion of regional GDP in Hong Kong have been on a consistent upward trend in recent years, signaling a gradual but important shift in capital allocation and investor appetite.

2.1.2 Industry Distribution: The Dominance of Fintech and Services

The sectoral distribution of VC investment in Hong Kong highlights a clear concentration in specific areas. Between 2017 and 2020, investment was heavily skewed towards financial technology (fintech), social platforms, B2B software services, and, to a lesser extent, artificial intelligence applications. This focus is a natural extension of Hong Kong's established strengths as a global financial center [3]. The city's deep pool of financial talent, robust regulatory framework, and concentration of banking headquarters make it a fertile ground for startups aiming to innovate within the financial services industry.

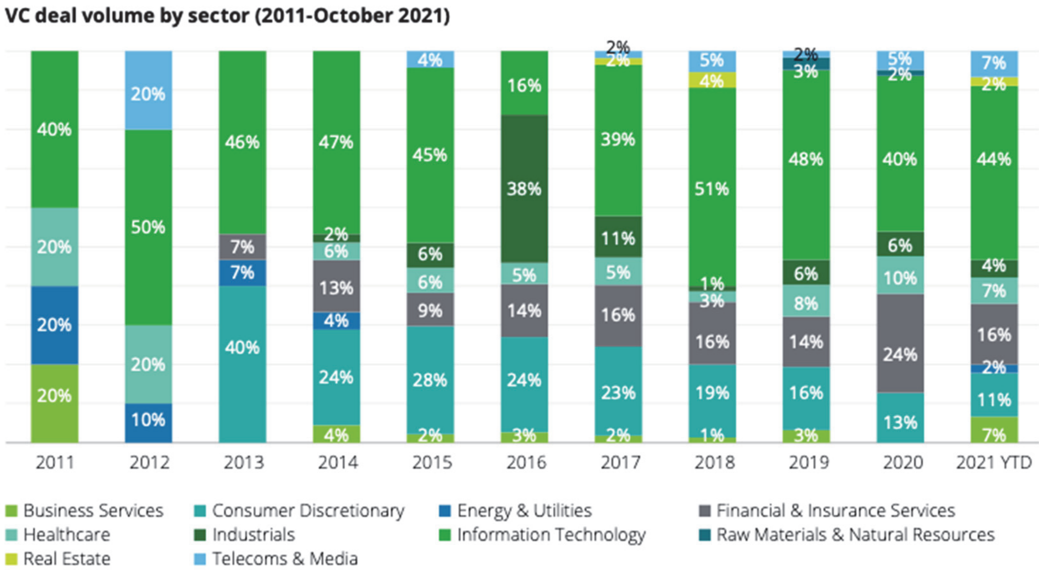

Figure 2. Distribution of Venture Capital Industry in Hong Kong from 2012 to 2020

However, this concentration comes with an opportunity cost. There has been a conspicuous lack of significant investment in "deep tech" or "hard tech" sectors such as biotechnology, new materials, advanced manufacturing, and new energy. In the Figure 2, data indicates that approximately 80% of annual VC investment is channeled into the service and fintech-related fields. This narrow focus suggests that while the startup ecosystem is growing, its industrial base is not yet sufficiently diversified. This creates a potential long-term vulnerability, as it risks missing out on the next wave of disruptive, science-driven innovation and cedes leadership in these critical strategic sectors to other regions.

2.1.3 Investment Stage: The Mid-Stage Funding Gap

A granular look at the distribution of capital across investment stages reveals a critical structural imbalance in Hong Kong's VC market: a pronounced mid-stage funding gap. During the 2015-2021 period, investment was overwhelmingly concentrated at the extremities of the startup lifecycle. Early-stage funding, encompassing pre-seed, seed, and angel rounds, was relatively robust, with the proportion of investment in this stage reaching a peak of 92% in 2015. The late-stage and pre-IPO market is also well-served by large regional and global private equity funds.

The chasm lies in the crucial Series A and Series B rounds. This is the "valley of death" where startups, having found product-market fit, need substantial capital to scale their operations, expand their teams, and capture market share. The lack of a deep pool of institutional VC funds dedicated to this stage means many promising Hong Kong startups struggle to secure follow-on financing. This can force them into premature exits, lead them to relocate to other markets with more mature funding ecosystems, or simply cause them to stagnate and fail. While the situation has shown signs of improvement—with the proportion of mid-to-late-stage investment reaching 46% in 2021—bridging this gap remains one of the most significant challenges for the ecosystem's long-term health.

2.1.4 Exit Situation and Competitiveness

The exit environment provides another lens through which to assess the ecosystem's maturity. The number of overseas companies using Hong Kong as a regional headquarters has seen a decline in recent years. In 2022, the total number fell to 8,978, a 0.8% year-on-year decrease and the first time the Figure 3 has dipped below the 9,000 marks since 2018. More concerningly, the number of regional headquarters—which bring the most significant economic benefits and high-value jobs—declined for the third consecutive year to 1,411. This trend may suggest a slight erosion of Hong Kong's traditional competitiveness as a premier business hub, potentially due to rising operational costs and intensifying competition from other cities like Singapore. For the startup ecosystem, a vibrant M&A market and a clear pathway to IPO are crucial for recycling capital and talent back into the system. While the Hong Kong Stock Exchange (HKEX) has made reforms to attract tech listings, the overall exit landscape for startups is still developing.

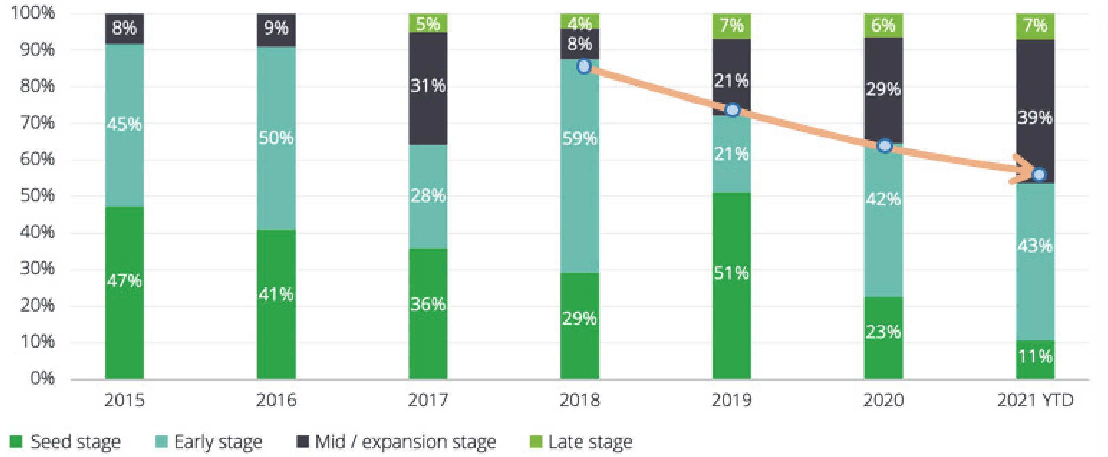

Figure 3. Distribution of Venture Capital Stages in Hong Kong from 2015 to 2021

2.2 Trends of Hong Kong Startups: A Decade of Growth

2.2.1 Growth in Number and Employment

Despite the funding challenges, the grassroots startup scene in Hong Kong has experienced explosive growth over the past decade. The number of startups surged from 1,558 in 2015 to 3,755 in 2021, representing a 140% increase in just seven years and reflecting an average annual growth rate of over 10% [4]. This growth has had a tangible impact on the labor market, with employment within these startups increasing from 3,721 to 13,804 over the same period—a remarkable 4.7-fold increase. This burgeoning activity has been supported by a corresponding expansion in physical infrastructure, with the number of co-working spaces, incubators, and accelerators growing by 2.1 times to 124 in 2021, providing essential resources and community for early-stage founders.

2.2.2 Industry Distribution: A Reflection of Market Strengths

The sectoral distribution of startups mirrors the trends observed in VC investment. Hong Kong's dynamic environment proves attractive to a wide array of industries, but growth has been particularly pronounced in areas that leverage the city's core strengths and respond to prevailing market trends. The ongoing digitalization of business and consumer life has fueled a rapid expansion in startups focused on fintech, e-commerce, and supply chain management & logistics. The COVID-19 pandemic also served as a catalyst for the ed-tech (educational technology) sector. Data from 2021 shows that nearly a quarter of all startups operate in these service-oriented fields. Conversely, the number of startups in capital-intensive, deep-tech industries like biotechnology, new energy, new materials, and intelligent manufacturing remains disproportionately low, further highlighting the ecosystem's industrial concentration.

2.2.3 The Rise of Unicorns and Local Champions

A key indicator of a maturing ecosystem is its ability to produce high-value, high-growth companies, or "unicorns" (private companies valued at over US$1 billion). In recent years, Hong Kong has successfully nurtured a stable of such companies, enriching the local industry landscape. These success stories serve as powerful inspiration for aspiring entrepreneurs and signal to global investors that Hong Kong is a viable place to build world-class technology businesses.

In the sample Table 1, prominent examples like SenseTime (Artificial Intelligence), Airwallex (Fintech), and Lalamove (Logistics) demonstrate the potential of Hong Kong-based startups to achieve global scale. These companies often leverage a unique "Hong Kong advantage"—combining world-class research and access to international capital with proximity to the vast market and manufacturing capabilities of mainland China. Their success creates a virtuous cycle, attracting more talent and capital and fostering a more sophisticated ecosystem of suppliers, partners, and experienced executives.

Table 1. Unicorns and representatives of listed companies in Hong Kong

	Unicorn companies	Industry	
1	DJI Innovations	robot	
2	SenseTime	artificial intelligence	Material submission-2021.08.27
3	Lalamove	logistics	
4	Airwallex	fintech	
5	4Paradigm	artificial intelligence	Material submission-2021.08.27
6	Klook	cultural consumption	
7	SmartMore	artificial intelligence	
8	WeLab	fintech	
9	GOGOX	logistics	Material submission-2021.08.27
10	Geek+	High tech manufacturing	
11	EcoFlow	New energy	
12	aftership	Logistics	
13	GOOGOLTECH	High tech manufacturing	
14	HAI ROBOTICS	Robot	
15	GeneHarbor	Medical medicine	
16	SmartSens	Semiconductor	
17	CiDi	Artificial intelligence	
18	Insilico Medicine	Medical medicin	

3. Trend of Hong Kong's Listed Companies: A Tale of Two Economies

An analysis of the Initial Public Offering (IPO) market on the Hong Kong Stock Exchange provides a powerful macroeconomic perspective on the city's underlying economic structure. Studying the 184 local Hong Kong enterprises that conducted IPOs between October 2017 and September 2022 reveals a persistent dominance of traditional industries.

Despite Hong Kong's reputation as a leading global IPO venue, the composition of its locally listed companies has not fully kept pace with the innovation-driven economy. A staggering 79 of these 184 companies belong to legacy sectors such as construction, warehousing, printing, and traditional retail services like restaurant chains. Many of these are long-established family businesses, often with low growth prospects and modest market capitalizations (tens to hundreds of millions of Hong Kong dollars). Conspicuously absent are IPOs from strategic new sectors: there were no new energy companies and only one new material company in the cohort.

This structural imbalance is starkly reflected in market valuations. The market assigns significantly higher multiples to companies in the "new economy." The average Price-to-Sales (PS) ratio for new economy listings reached 7.5, whereas many traditional companies trade at a PS ratio of less than 1. This valuation gap sends a clear signal of investor sentiment, favoring high-growth, technology-enabled business models over their traditional counterparts. The average market capitalization tells a similar story: new economy IPOs averaged HK$2.38 billion, while the overall average was dragged down to HK$628 million by the long tail of small, traditional firms.

However, a more recent trend offers a glimmer of hope. While the total number of IPOs has declined from its peak in 2017-2018, the composition of these listings is beginning to shift. The number of IPOs from traditional industries is decreasing, while the proportion of new economy companies is on the rise. This suggests that the pipeline of venture-backed startups is beginning to mature, with more companies reaching the scale and readiness for public listing. This evolution is critical for the long-term health of the HKEX and the broader economy.

4. Analysis of Hong Kong Venture Capital Policy Environment: A Proactive Governmental Push

Recognizing the challenges and the strategic imperative to evolve, the HKSAR Government has implemented a suite of proactive and comprehensive policies designed to catalyze the innovation ecosystem [5].

4.1 Government-Led Strategic Investment

A landmark development in this policy push was the agenda set forth in the Chief Executive's 2022 Policy Address [6]. A cornerstone of this strategy is the creation of the Hong Kong Investment Management Co., Ltd. (HKIC). This new entity acts as a super-fund, consolidating and managing several government-led investment vehicles, including the Hong Kong Growth Portfolio, the Greater Bay Area Investment Fund, the Strategic Innovation Fund, and a newly established RMB 30 billion co-investment fund. The mandate of the HKIC is to move beyond the traditional, passive role of a limited partner and act as a strategic direct investor. By taking the lead in investing in companies and sectors deemed vital to Hong Kong's future, the government aims to de-risk these opportunities for private investors, attract leading global enterprises to set up in the city, and steer the economy towards a more diversified and technology-driven future.

4.2 Cultivating and Commercializing Research

A key pillar of the government's strategy is to better leverage Hong Kong's world-class academic and research institutions. The government is set to launch a "Blueprint for the Development of Innovation and Technology," which will formulate key policies around four strategic domains: life and health technology, artificial intelligence and data science, advanced manufacturing, and new energy technology. To bridge the infamous gap between academic research and commercial application (the "from 1 to N" problem), the government is establishing a HK$10 billion "Industry-University-Research 1+ Plan." This fund is specifically designed to incentivize and finance the transformation of outstanding research outcomes from university labs into viable commercial products and services, thereby strengthening the entire innovation value chain.

4.3 Enhancing the Venture Capital Policy Environment

To attract private capital and fund managers, the government has introduced several targeted policy incentives. In 2017, the HK$2 billion "Chuangke Venture Capital Fund" (ITVF) was established. Under this scheme, the government co-invests with selected VC funds in local tech startups, typically at a 1:2 ratio, which helps to leverage private capital and increase the total funding available to startups. Furthermore, a crucial recent reform was the introduction of a tax exemption for carried interest—the performance-based share of profits earned by VC fund managers. This brings Hong Kong's tax regime in line with other global financial hubs and is a powerful incentive for attracting top-tier venture capital talent and encouraging more funds to be domiciled in the city. Cross-border initiatives, such as the "Eighteen Measures for Supporting the Joint Development of Qianhai Shenzhen-Hong Kong Venture Capital," further aim to promote seamless capital and talent flow within the Greater Bay Area.

Figure 4. Chief Executive's Policy Address in 2022

4.4 Leveraging World-Class University Research Institutions

The foundation of any thriving innovation ecosystem is its research and talent pipeline. Hong Kong possesses an extraordinary concentration of academic excellence, with five universities consistently ranked among the top 100 globally. These institutions house over 40 academicians of the two national academies, 16 State Key Laboratories, and numerous other world-class research centers. This deep well of scientific talent and R&D capability is Hong Kong's most significant competitive advantage in the race for innovation leadership. The government's policies are increasingly focused on activating this potential, encouraging tech transfer, and fostering a culture where top scientists and engineers are incentivized to become entrepreneurs, ensuring a virtuous cycle of research, innovation, and economic development.

5. Conclusion

Hong Kong's entrepreneurial and investment environment is during a profound and necessary transformation. The journey from a traditional financial hub to a diversified, innovation-driven economy is well underway, propelled by a dynamic startup scene and a government that has demonstrated a firm commitment to strategic intervention and investment. The growth in the number of startups, the emergence of local unicorns, and the increasing scale of the venture capital market are all testaments to the progress made.

However, this analysis also reveals persistent structural challenges that must be addressed with urgency and precision. The ecosystem's heavy reliance on fintech and service industries at the expense of deep tech represents a strategic vulnerability. The most critical bottleneck remains the mid-stage funding gap, which threatens to cap the potential of Hong Kong's most promising scale-ups. Furthermore, the slow evolution of the public markets, which are still heavily weighted towards traditional industries, must accelerate to provide a viable exit path for the new generation of tech companies.

Looking forward, sustained success will depend on a multi-pronged approach. First, policy initiatives must be laser-focused on alleviating the Series A/B funding gap, perhaps through more aggressive government co-investment schemes or incentives for institutional investors to allocate capital to this stage. Second, a concerted effort is needed to cultivate a more risk-tolerant investment culture, particularly among local family offices and traditional asset managers, encouraging them to embrace the higher-risk, higher-reward profile of venture capital. Third, Hong Kong must double down on its unique advantages—its world-class universities, its status as an international financial center, and its role as a "super-connector" to mainland China—to build globally competitive clusters in strategic deep-tech sectors.

The path ahead is challenging, but the foundations for success are in place. By continuing to foster collaboration between government, private capital, and academia, and by courageously addressing its structural weaknesses, Hong Kong has the potential to successfully complete its economic transformation and solidify its position as a leading global center for innovation and technology in the 21st century.

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