

Creating a Globally Competitive Startup Ecosystem

Tentative Translation

(Expert Committee on Innovation Ecosystem, Council for Science, Technology and Innovation)

【Importance of Startups & Opportunities】

- **Importance of startups:** Economic growth, solving social issues, the New Capitalism.
- **Domestic ecosystem:** Developed steadily past 10 years, increasing VC investment.

【Challenges】

- **Global competition:** Foreign ecosystems grow faster, outflowing talents and techs.
- **Small & domestic focus:** Majority of Japanese startups.

【Policy Directions】

- This paper focuses five pillars to unlock the Japanese potential of deep-tech and digital technologies to create a globally competitive startup ecosystem: (1) Growth capital, (2) Venture Capital investment, (3) Entrepreneurship, (4) City and university functions, and (5) Public procurement.

Items	Challenges	Policy Directions
Growth Capital (LPs)	<ul style="list-style-type: none">• Extremely small volume of VC investment when compared to other countries.• Limited VC investment through all stages –particularly at growth and late stages.• Small amount of LP investment from asset owners.	<ul style="list-style-type: none">• Improve VC investment environment to foster asset owners' investment in VCs.• Increase public risk money (LP investment) to develop VC market, especially later stage investment.• Consider a mechanism to promote investment from individuals to VCs.
VCs (GPs)	<ul style="list-style-type: none">• VC's lack of experience on creating startups that can go global market and expertise in deep-tech field.• Small ticket size and small amount of later stage VC investment.	<ul style="list-style-type: none">• Promote a framework for public LP investment in foreign VCs to introduce foreign VC's know-how and networks to Japanese startups.• Design an incentive to develop VC's capability through public LP investment to VCs.
Entrepreneur Mindset	<ul style="list-style-type: none">• Insufficient incentives for entrepreneurs compared to other countries.• Absence of secondary market: entrepreneurs' only choice is to go IPO.• Entrepreneurship education is limited.	<ul style="list-style-type: none">• Consider a scheme fostering a positive cycle of entrepreneurs–angel investors.• Review stock option system to attract high-skilled domestic/international talents.• Create an environment to establish secondary market.• Strengthen entrepreneurship/STEM education from primary and secondary education levels.
City & University	<ul style="list-style-type: none">• Inadequate capacity of Japanese city's/university's competitiveness for startup ecosystem.• Absence of world-class startup campus.	<ul style="list-style-type: none">• Strengthen city's capability to create global startups clusters.• Promote university's center of excellence, attracting top researchers from abroad through the University Endowment Fund.• Establish world-class startup campuses collaborating with foreign universities.
Government Procurement	<ul style="list-style-type: none">• Extremely low ratio of contracts for young SMEs over total government procurement (less than 1%).• Limited amount of SBIR, a R&D support program toward procurement.	<ul style="list-style-type: none">• Drastically expand SBIR program.• Promote public procurement from startups at national/local government level.• Review requirements for startup to join procurement and simplify procedures.