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Democracy Dies in Darkness

Opinions

The U.S. has lost its entrepreneurial advantage

Apple's iPhone XR, left, and the iPhone XS Max. The American start-up culture has nurtured countless tech firms, including titans such as Apple. (Richard Drew/AP)

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Globalization strikes again. The latest target is entrepreneurship.

For decades, promoting start-up firms through venture capital and other methods of business investment seemed a peculiarly American strength. It has nurtured countless tech firms, including titans such as Facebook, Google and Apple. Americans have been duly proud. It reinforced a sense of national exceptionalism, because other countries couldn't easily duplicate it, if at all.

No more.

A new study shows that the United States' capacity to foster high-tech firms is increasingly emulated abroad. The U.S. monopoly on entrepreneurship has been broken and almost certainly can't be restored. American venture capitalists are investing in foreign start-ups, and foreign investors are pouring money into U.S. start-ups.

This adds a new layer to globalization. The know-how of creating new companies is spreading abroad. Earlier, manufacturing was globalized, as firms adopted worldwide supply chains. Portfolio investment — the buying and selling of stocks and bonds — was also globalized, as instant communication and new laws made it possible to shift funds rapidly between domestic and foreign stocks and bonds.

"The issue now is the competition for global talent," says Ian Hathaway of the Center for American Entrepreneurship, a small advocacy group that sponsored the report. "For years, the U.S. had a huge transfer of wealth from foreigners who came here to start new firms. Now people [foreigners] don't have to do that anymore. They have VC [venture-capital] markets in their own countries."

The report confirms this. In the early 1990s, the United States represented about 95 percent of worldwide venture-capital investment. By 2015-2017, the U.S. share was only "a little more than half," the study found. It counted the number and value of more than 100,000 venture-capital deals in about 300 cities worldwide from 2005 to 2017.

It's not that U.S. venture-capital investing has lagged. Actually, it has rebounded fairly strongly from a collapse after the dot-com boom of the late 1990s. In 2017, American venture-capital spending totaled $91 billion, according to Hathaway, who authored the study with Richard Florida, a well-known scholar on urban policy. But foreign spending grew faster, raising its share of the total.

Glance at the table below, distilled from the report. It shows that venture-capital spending remains highly concentrated. The top 10 global cities represent almost two-thirds of total venture-capital spending. But the dominance of Silicon Valley (San Francisco and San Jose) and the United States is fading, with China as the major challenger.

% SHARE OF TOTAL GLOBAL VENTURE CAPITAL SPENDING, BY CITY, 2017	
1. San Francisco, USA	16%
2. Beijing, China	14.2%
3. New York, USA	6.6%
4. San Jose, USA	4.9%
5. Boston, USA	4.8%
6. Shanghai, China	4.7%
7. Los Angeles, USA	3.4%
8. London, UK	3.1%
9. Hangzhou, China	2.2%
10. Bangalore, India	2.1%
TOP 10	62%

Source: "The Rise of the Global Startup City: The New Map of Entrepreneurship and Venture Capital" (2018)

The United States needs to protect its position as the world's most attractive location for start-ups, the report argues, by — among other things — creating a special visa for immigrants who will commit to working on start-ups. Whether this is possible or practical in today's toxic political climate involving immigration issues is unclear.

But the main message is unmistakable: "The notion that successful startups must launch and scale [expand] in Silicon Valley or another leading American city no longer holds true. Increasingly, the world's high-tech entrepreneurs are choosing to stay in their home city or nation."