

# THE INCREASING PACE OF BUSINESS CREATION AROUND THE WORLD

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INTERNATIONAL STUDY, MEASURING THE AGILITY OF DEVELOPED VS.  
EMERGING ECONOMIES

DECEMBER 2017



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## INTRODUCTION

The rate at which business numbers increase is a clear sign of economic confidence, reflecting governments' support for enterprise-friendly policies, infrastructure improvement projects and an "open for business" approach to taxation and investment. Economies where entrepreneurship abounds and where businesses are given the right conditions to succeed are more likely to grow faster, and are putting themselves in a better position to compete on the global stage.

At this stage in the economic cycle, understanding which countries are seeing business numbers accelerate fastest and identifying any global trends, for instance between developed or emerging economies, should provide useful insight. Not only is this indicative of individual countries' underlying economic strength, it could also point to likely future shifts in global economic power.

To find out which countries are pulling ahead and which are lagging, we conducted research across 21 countries around the world, studying the number of businesses existing in 2016 in comparison with the previous year. This allows us to build an accurate picture of the real state of enterprise creation and helps assess the strength of entrepreneurial drive in different countries.

Our aim is to quantify the size of the gap between developed and emerging economies, gauge whether it is widening, and analyse why some countries are outperforming others. Below we outline our key findings and analysis of the trends.



# 1 – KEY FINDINGS

## KEY FINDINGS AND ANALYSIS FROM OUR RESEARCH INCLUDE:

- Despite China’s recent deceleration in economic growth, it has been increasing its business numbers faster than any other major economy in the last year – up 19% in 2016.
- Overall across all 21 countries in the study, business numbers in 2016 increased by 8% on the previous year.
- Emerging economies dominated the top of our table, with Pakistan second after China and India fifth.
- Major Western economies, on average, lagged behind with business numbers growing just 2.2%. Although levels of entrepreneurship are generally healthy, this underlines the relative lack of scope that more mature economies have to grow new business creation at such a rapid rate.
- Of these major Western economies, the UK saw the best performance, coming 6th in our table, increasing its stock of businesses by 6% last year.
- The US came 13<sup>th</sup> out of 21, while Japan was 15<sup>th</sup>, due in part to SMEs enduring a chronic lack of workers. In addition, the ageing of management owners is a serious concern for Japan.
- Germany saw business numbers grow by only 1%, ranking it lower than most other European countries in the study including France and Spain.

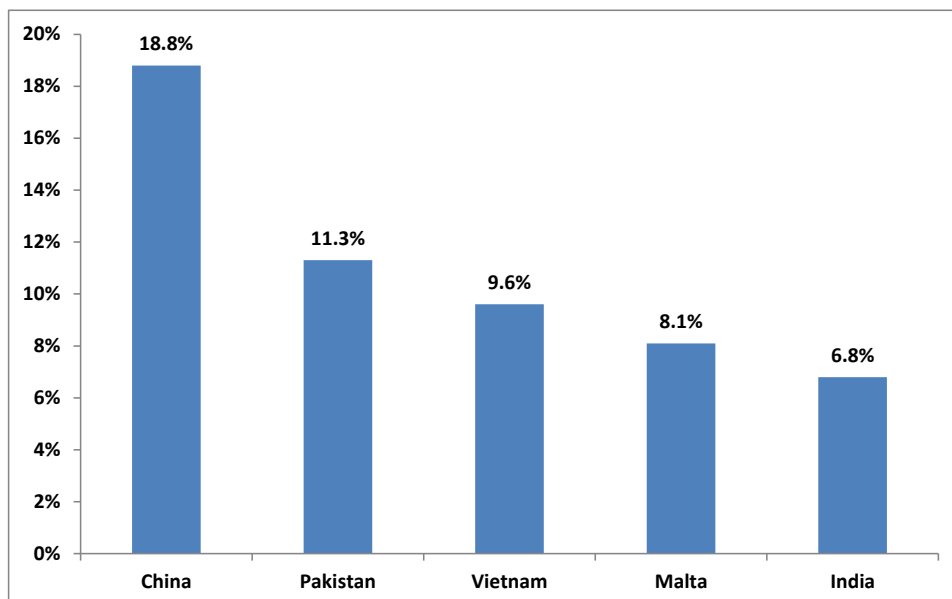


Figure 1 – Economies with biggest growth in business numbers in the past year: Top 5

## 2 – MAJOR EMERGING ECONOMIES

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### China outstrips major western rivals

It is clear from our study just how fast China has been outstripping its G7 rivals – and much of the rest of the world - in boosting business numbers.

It saw its stock of businesses increase by almost a fifth – 18.8% - in just one year, far more than anywhere else in our study, highlighting the continued strength of its economic growth, despite its recent deceleration. A net 4.1 million more businesses were added in 2016, taking the total number of businesses in China to over 26 million.

The figures reflect that continued shift in emphasis from state owned businesses to smaller, privately-run companies, a shift that is gaining momentum. They also suggest that large-scale infrastructure investment in China and moves to mitigate the impact of the slowdown have paid off. Increasing the number of smaller businesses is reflective of China’s growing consumption and consumer based sector, where SMEs play a larger role than in economies primarily based on secondary industry.

Significant transport and digital projects have played a major role in driving its economic growth, and transformed many of its regions and cities into significant industrial hubs, stimulating new business creation in the process. The technology sector has played a vital role in the phenomenal growth in the number of businesses in China.

This has also encouraged more foreign direct investment into the country, speeding up global supply chains and fostering stronger business relationships between Chinese and foreign companies.

With China’s GDP increasing faster than most other countries, despite moderating in recent years, new businesses have been thriving, feeding off growing domestic and international demand for their products – a trend which shows no sign of slowing.

### India’s business-friendly initiatives start to pay off

Business numbers in India grew by 6.8%, putting it within the top 5 of our table. It added 73,000 more businesses to its stock, making a total of 1.1 million Indian businesses in 2016, up from 1 million in 2015.

This suggests that recent government initiatives to create a more business-friendly environment may be starting to yield results.

These include the “Make in India” initiative, which was launched in 2014 to transform India into a global design and manufacturing hub, reducing business barriers and encouraging Foreign Direct Investment (FDI) from corporates and investors.

Another initiative is “Skill India” that aims to boost the talent pool employers can draw from. Launched in 2015, it aims to train over 400 million people in a range of skills by 2022.

With the government making such great efforts to stimulate industry and enterprise, it is essential that the infrastructure can keep up. Recognising this, India's government is poised to push ahead with a major infrastructure overhaul. The Budget earlier this year saw the Government promise some USD 60 billion to infrastructure spending to upgrade the country's overstretched rail, road and airport networks.

Such significant investment should go a long way to helping existing businesses become more efficient, productive and ultimately competitive, creating positive conditions to encourage more entrepreneurs to launch new businesses.

### Russia also outperforms major Western economies

Russia also outperformed the major economies in the study, ranking at number 10 in the table. Business numbers have increased by 3.2% over the period (or 158,000 more), putting the total at 5million in 2016.

Business numbers in Russia also rose faster than they did for most of its European neighbours, with an average increase of just 2.2%.

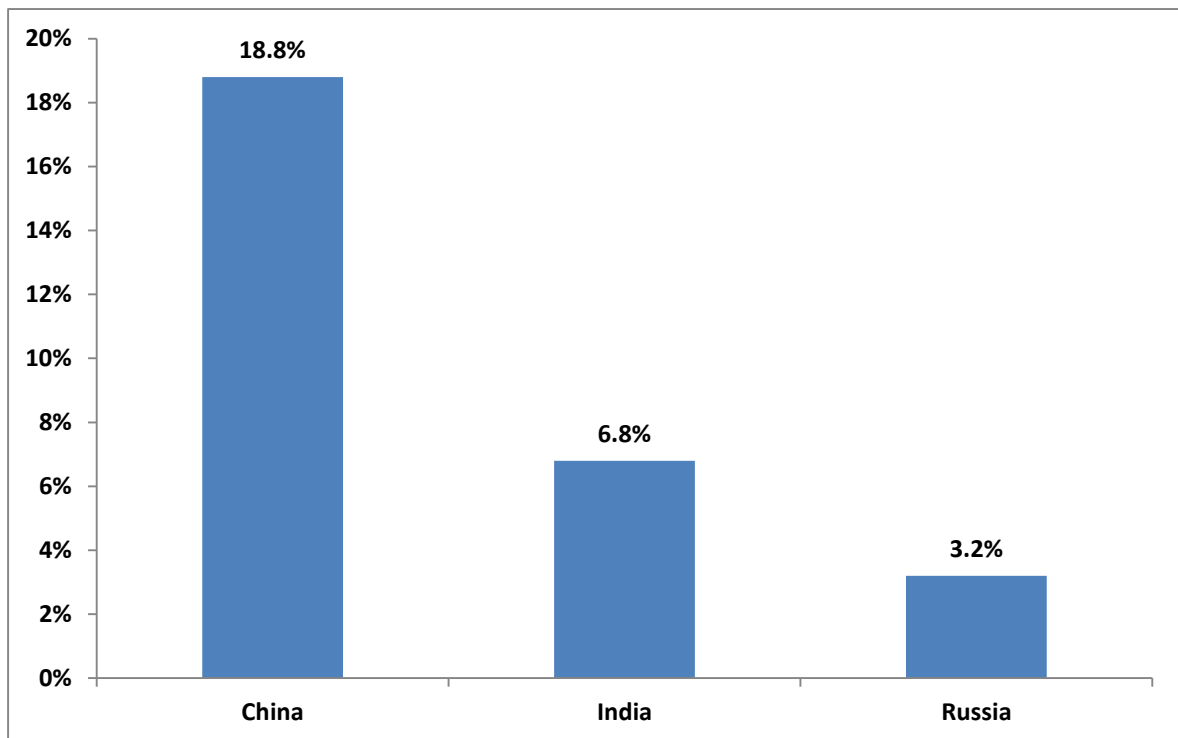


Figure 2 – Rate of increase in total business stock in the past year: Major emerging economies

## 3 – MAJOR WESTERN ECONOMIES

By contrast, the major, leading western economies (France, Germany, Italy, Japan, UK, USA) saw much lower levels of business creation, both compared to emerging markets and the global average as a whole. Their year-on-year increase in new business numbers was just 2.2%, compared to a global figure of 7.7% and China's 18.8%.

This highlights that more mature economies simply don't have the same scope to grow new business numbers at the same rate that some emerging economies are enjoying. Our research does however reveal some significant differences in performance across major economies of certain G7 nations.

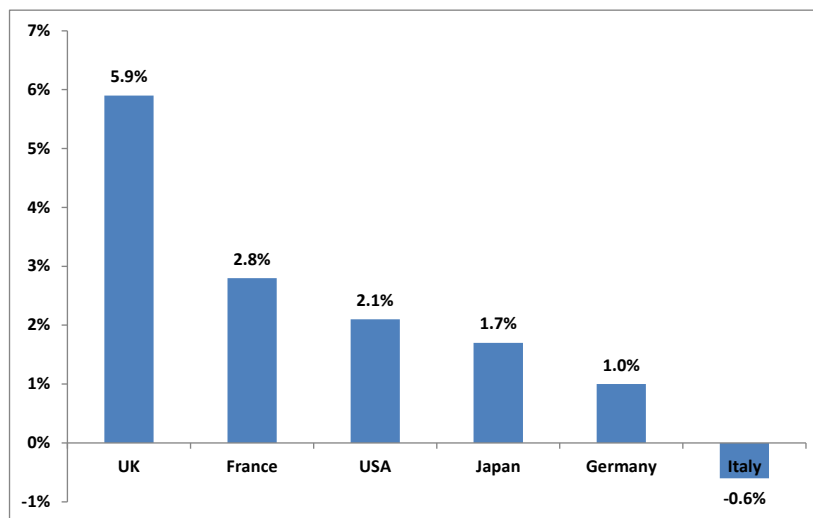


Figure 3 – Rate of increase in total business stock in the past year: Major western economies

### The UK comes first and France second of major Western economies studied

Of the Western economies studied, the UK is first, coming 6th in the overall global UHY table. Numbers of businesses in the UK increased by 6% in the last year, with 217,900 more businesses taking the total to 3.9 million.

Greater access to alternative sources of finance such as asset based finance and challenger banks may be opening up more opportunities for would-be British entrepreneurs. Falling rates of corporation tax have also helped ease the pressure on small businesses and their owners: the UK has one of the lowest levels in the G7 at 19%, with plans to reduce it to 17% by 2020. However, whether Brexit will slow the rate of growth going forward remains to be seen.

France also saw an above-average performance compared to other western economies, with a 2.8% increase in business numbers in a year. Another 137,000 companies were added to its stock, meaning that total business numbers are just shy of the 5 million mark.

This is partly driven by more companies asking for Certified Public Accountant (CPA) assistance before incorporation. However, despite this, administrative complexity and relatively high taxation levels remain challenging to new business, which could act as something of a deterrent.

## US, Japan and Germany lag behind

The US sits in the second half of our business creation growth table, over two-thirds behind the global average of 7.7%. Some 230,000 more businesses (2.1%) were added to its total last year, meaning that in 2016 there were just over 11 million businesses in operation there.

This raises questions over the extent to which entrepreneurship in the “land of opportunity” is alive and well, and whether the right conditions to allow businesses to thrive are in place.

It should be noted that major advanced economies with already large numbers of businesses, such as the US, can often find it difficult to add to their stock as they do not have the scope for similar growth rates to emerging economies, including China.

However, comparisons with China aside, the idea that the US is being outperformed by other mature economies such as the UK is likely to be a cause of concern to policymakers.

So too in Japan, which saw an increase of just 1.7% to make a 2016 total of 5.4 million businesses. This is due in part to small businesses enduring a chronic lack of workers and the ageing of management and owners, which are both serious concerns for Japan.

However, measures are in place to improve the situation. Enhancing access to finance for SMEs has become a key policy goal, for instance via the establishment of earthquake recovery special loans. In addition, safety net loans provided by government-affiliated financial institutions to stabilise the position of SMEs in financial difficulty due to customer bankruptcy or changes in the economic environment amounted to some USD 220 billion last year. Tax incentives for small businesses have also been improved.

Germany, widely seen as Europe’s economic powerhouse, saw business numbers grow by only 1%. It increased its stock by 33,630 companies taking the total to 3.5 million.

Several issues could be at play here. Germany’s low unemployment rate may be a key factor, as job losses can often provide the catalyst for new business start-ups, encouraging more people to strike out on their own.

The pressure of red tape and tax on businesses may also be impacting success and there’s a feeling that there is room for greater policy commitment to support entrepreneurship. However, the government is making improvements in many areas including infrastructure, public funding programmes and intellectual property rights, setting good conditions for the future.

## Italy sees business numbers fall

Italy saw a net decrease in business numbers of 0.6%, a loss of approximately 20,000. This put the total number of businesses in 2016 at 3.1 million.

The government is aiming to address this through a series of reforms, including: a corporate tax reduction, incentives for innovative start-ups, a tax bonus on investments, simplifications and deregulation in procedures and labour market deregulation. Young entrepreneurs also benefit from the SrlS (Simplified limited liabilities company) that can be established with an initial share capital of just €1.



## 4 – EUROPE

Malta came within the Top 5 of the UHY table, with business numbers growing by 8.1% year-on-year to 95,000 companies, while Denmark was 7<sup>th</sup> with growth of 3.7%.

The Republic of Ireland also performed well, coming 9<sup>th</sup> with an annual increase of 3.3%. This took the total number of companies in Ireland to 205,000. This suggests growing confidence in its economy, as it leaves the shadow of the financial crisis behind.

Challenges remain - notably the Companies Act increasing companies' obligations in Ireland. However, moves to make it easier to incorporate via e-filing have assisted in streamlining the process of getting entrepreneurs up and running.

Spain – also hard hit by the impact of the financial crisis - appears to be making progress too. Spain's business numbers rose by 2.1% over the year, putting its total growth on a par with the US. There were 3.6million businesses there last year.

Recently, Spain has made inroads into making it easier to do business in the country, by improving the contract enforcement and the bankruptcy process. However, more could be done to make it simpler to set up a company, as currently the full process could require numerous independent procedures depending on the sector of the business.

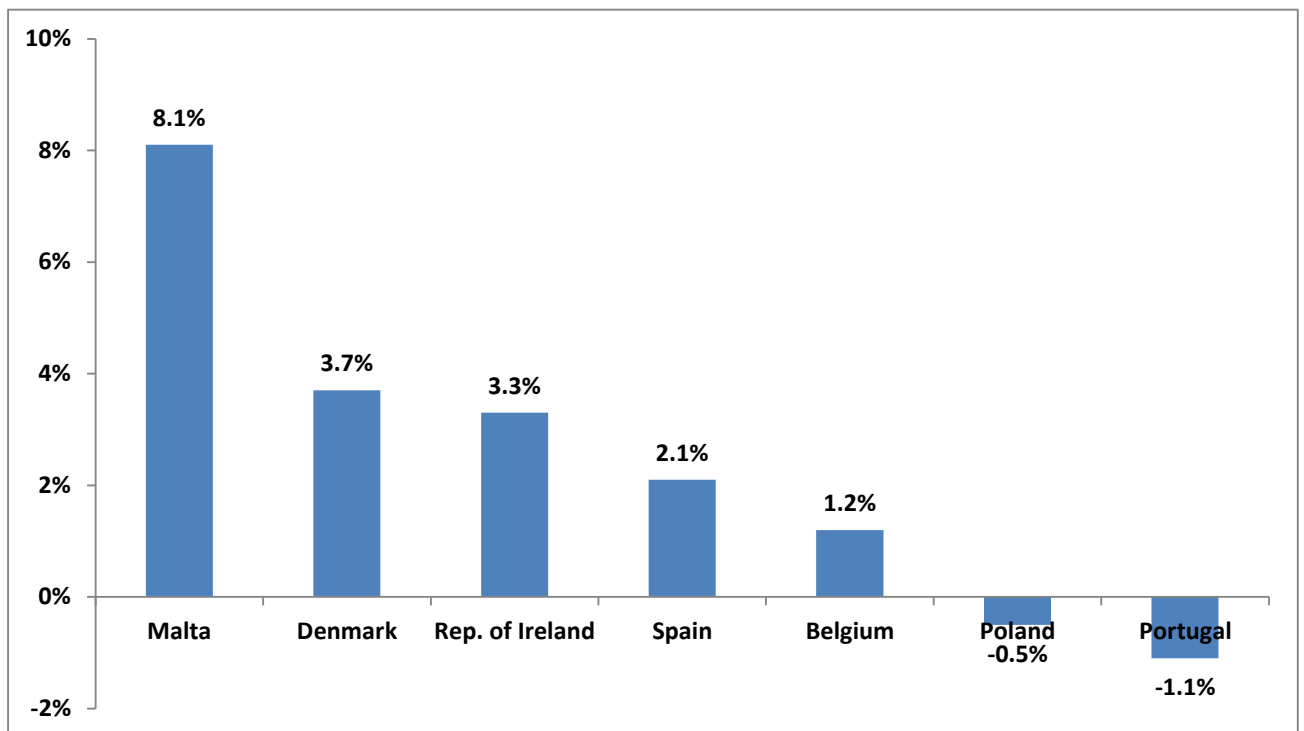


Figure 4 – Rate of increase in total business stock in the past year: Europe

Some other nations in Europe have not performed as strongly. Belgium saw a below average performance, with business numbers increasing at just 1.2%.

Poland and Portugal both fell into negative territory, with business numbers decreasing by 0.5% and 1.1% respectively.

In Portugal, the Government does not currently offer many tax incentives for the creation of a new business, although there is a participation exemption rule for investors. Portugal is continuing to recover from a deep recession, with the main macro-economic problem of a huge public debt burden, although the public deficit has been decreasing.

However, there are positives: with falling times for late payment, good internal transport infrastructure, and improving rates of qualifications held by the domestic worker force.

In Poland, more could be done to draw on its pro-active, skilled and cost-efficient labour pool, which is currently shrinking. However, recently improved infrastructure projects should hopefully help to foster a stronger, more efficient and productive enterprise base in the coming years.

Moreover, the Government has introduced some tax exemptions for companies based in the Special Economic Areas, which can appeal to foreign investors. All of these factors help make Poland increasingly attractive as a place to set up a business in the industrial sector and should contribute to higher numbers of businesses in the future.



## 5 – ASIA, ASIA-PACIFIC AND THE MIDDLE EAST

Pakistan performed well coming in at number two in our study – with business numbers increasing by 11.3% over the year to 81,000. Vietnam came third with an increase of 9.6%. Pakistan’s performance may be helped by a growing number of reforms undertaken by the Security Exchange Commission of Pakistan (SECP) to help simplify the procedures required to start a company. These aim to reduce regulatory approvals needed and the costs involved, particularly for small and medium enterprises.

In the Middle East, Israel demonstrated relatively strong growth in business numbers of 3.6%, taking the total stock to 279,000, and the Israeli government is looking at further ways to boost business numbers. For example, in 2016, the ‘Israel Innovation Authority’ launched an ‘Innovation Visa’ program which will help to provide a framework for foreign entrepreneurs to live in Israel and receive support for their businesses.

New entrepreneurs will be allowed to stay for two years and will receive support from the organisation’s Tnufa programme, which helps entrepreneurs at a pre-seed stage. The Israel Innovation Authority is the support arm of the Government tasked with fostering development of industrial research and development.

Dubai, however, saw negative growth with business numbers falling by 2% in the year to 129,000. Availability of finance remains a challenge in the UAE, where recent low oil prices and slowing economic activity have dampened SME confidence to start-up and grow. According to research by the Abu Dhabi Council for Economic Development, 67% of entrepreneurs state that the basic deterrent in setting up their business was the lack of availability of loans and credit from the banks they approached.

Australia saw business numbers increase by 2.4%, with its economy having proved resilient over the year, with relatively robust GDP growth, helping to foster positive conditions for businesses.

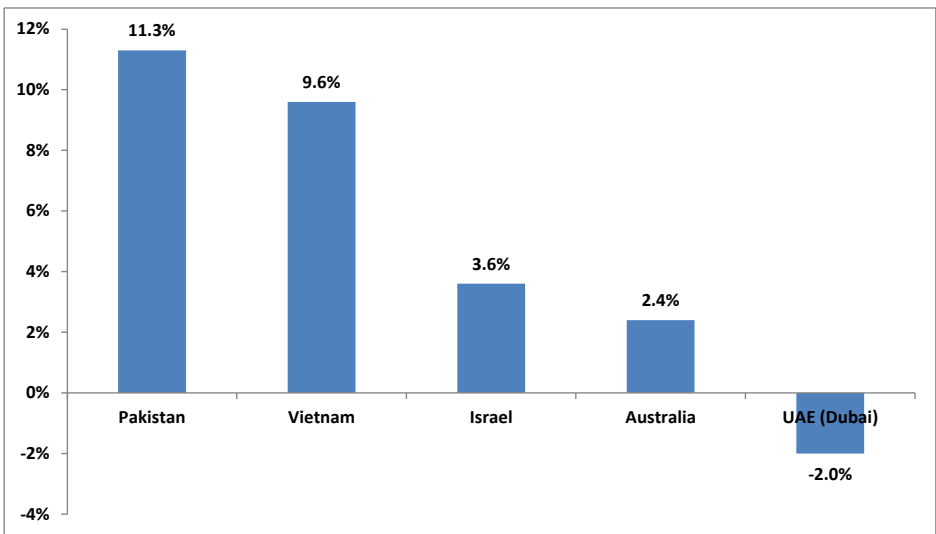


Figure 5 – Rate of increase in total business stock: Asia, Asia-Pacific and the Middle East

## 6 – CONCLUSION

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Our findings shine a spotlight on just how fast some major emerging economies have been pulling ahead compared with many of the major Western economies and Europe.

China has been leading the way, as a move towards a privately-owned as opposed to state-run emphasis gains momentum, which, together with ambitious growth plans, has continued to pay off. Others such as India have also made strong progress.

Developed economies too are seeing healthy levels of entrepreneurship – but business numbers are growing at nothing like the same impressive pace.

This highlights the importance of fostering an enterprise environment which not only encourages seed businesses to be started, but also creates the right conditions for them to establish themselves, to develop and to grow.

Increased investment to deliver better transport networks, digital infrastructure and enterprise support are some of the keys to success.

In order to remain competitive, governments – whether in emerging or developed economies - need to continue to focus on delivering new infrastructure projects and upgrades to create a competitive edge. This is something which many in the G7 and Europe have struggled to prioritise during the austerity years of the last decade.

At the same time, keeping the tax burden for SMEs and entrepreneurs light, improving access to finance and encouraging Foreign Direct Investment (FDI) will also play an important part in encouraging entrepreneurship and nurturing enterprise growth in the future.

Getting the dynamics right is no mean feat – but the example of China demonstrates what the necessary scale of ambition and drive, both on a macro policy level, and on an individual company level can achieve.

More mature economies may lack the same capacity for growth, as their markets tend already to be more highly competitive, but ambition remains strong. Our study confirms that business creation is flourishing in many economies across the world. Given the right economic conditions, long may it continue.



## DATA ANNEX

### Rankings by percentage change in number of businesses

Rank	Country	Number of businesses in 2015	Number of businesses in 2016	Amount change in number of businesses	% change in number of businesses
1	CHINA	21,982,000	26,115,000	4,134,000	18.8%
2	PAKISTAN	73,000	81,000	8,000	11.3%
3	VIETNAM	442,000	485,000	42,000	9.6%
4	MALTA	88,000	95,000	7,000	8.1%
-	WORLD	68,761,000	74,029,000	5,268,000	7.7%
5	INDIA	1,070,000	1,143,000	73,000	6.8%
6	UNITED KINGDOM	3,679,000	3,897,000	218,000	5.9%
7	DENMARK	297,000	308,000	11,000	3.7%
8	ISRAEL	270,000	279,000	10,000	3.6%
9	REP. OF IRELAND	198,000	205,000	7,000	3.3%
10	RUSSIA	4,886,000	5,044,000	158,000	3.2%
11	FRANCE	4,836,000	4,973,000	137,000	2.8%
12	AUSTRALIA	2,121,000	2,172,000	50,000	2.4%
-	MAJOR WESTERN ECONOMIES*	31,208,000	31,898,000	690,000	2.2%
-	EUROPE	21,186,000	21,647,000	461,000	2.2%
13	UNITED STATES	10,816,000	11,046,000	230,000	2.1%
14	SPAIN	3,512,000	3,586,000	73,000	2.1%
15	JAPAN	5,269,000	5,360,000	91,000	1.7%
16	BELGIUM	634,000	642,000	8,000	1.2%
17	GERMANY	3,469,000	3,503,000	34,000	1.0%
18	POLAND	151,000	150,000	-1,000	-0.5%
19	ITALY	3,139,000	3,120,000	-20,000	-0.6%
20	PORTUGAL	1,181,000	1,169,000	-12,000	-1.1%
21	UAE (DUBAI)	131,000	129,000	-3,000	-2.0%

\*France, Germany, Italy, Japan, UK, United States

Notes on the figures (rounded to the nearest thousand):

**Japan** – 2015 figure is an estimate based on 2014 and 2016 figures; **UK** – figures have a year end of 31 March 2016 and 2017, and are figures from Companies House on new incorporations and dissolved companies; **Germany** – 2016 figure is an estimate based on new registrations and de-registrations for 2016; **Belgium** – figures are for 2014 and 2015, the most up-to-date figures available; **Vietnam** – 2016 figure is an estimate based on annual growth rate 2010-15; **Australia** – Year end June 30 June 2015 and 2016; **Pakistan** – figures are for fiscal years 2015-16 and 2016-17 and measure the number of companies registered with the Securities and Exchange Commission of Pakistan (SECP).

**Data sources:**

<b>Australia:</b>	Australian Bureau of Statistics
<b>Belgium:</b>	DBRIS (Database of the Subjects of the Statistical Information)
<b>China:</b>	State Administration of Industry and Commerce
<b>Denmark:</b>	Statistics Denmark
<b>France:</b>	INSEE (National Institute of Statistics and Economic Studies)
<b>Germany:</b>	Statistisches Bundesamt
<b>India:</b>	Ministry of Corporate Affairs
<b>Israel:</b>	Central Bureau of Statistics
<b>Italy:</b>	Movimprese Unioncamere
<b>Japan:</b>	Statistics Bureau, Ministry of Internal Affairs and Communications
<b>Malta:</b>	National Statistics Office Malta
<b>Pakistan:</b>	Securities and Exchange Commission
<b>Poland:</b>	GUS (Central Statistical Office of Poland)
<b>Portugal:</b>	Instituto Nacional de Estatística
<b>Rep. of Ireland:</b>	Companies Registration Office
<b>Russia:</b>	Federal State Statistics Service
<b>Spain:</b>	Instituto Nacional de Estadística
<b>UAE (Dubai):</b>	Dubai Statistics Center
<b>United Kingdom:</b>	Companies House
<b>United States:</b>	IRS (Internal Revenue Service)
<b>Vietnam:</b>	General Statistics Office



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