

GenAI as Co-founder



How Generative AI is Democratizing Entrepreneurship

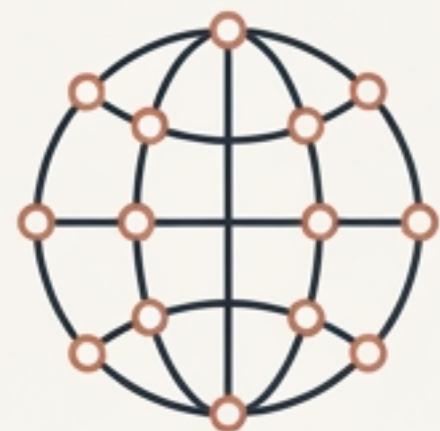
Based on large-scale empirical evidence from 6.5 million firm registrations (Cai et al., 2025).

Technological Revolutions Have Always Fueled Entrepreneurship

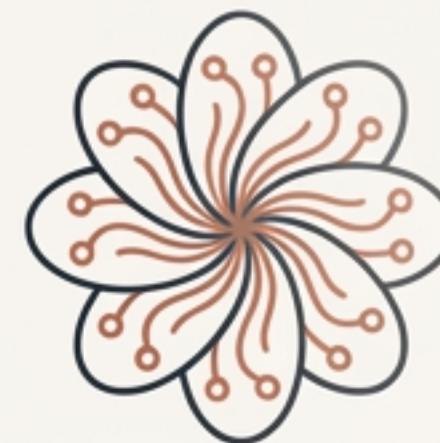
Foundational technologies historically act as catalysts for “creative destruction,” creating new firms and markets. This has been a consistent pattern of economic progress.



Spawned
Microsoft & Apple



Birthed Google,
Amazon & Facebook



Sparked an
ambiguous new era...

In Late 2022, an Unprecedented Global Shock Occurred

The November 2022 release of ChatGPT was not a gradual shift. It was an unanticipated event that reached a critical mass of users at a velocity that has no historical parallel.



A Tool for Titans or a Launchpad for Dreamers?

The unprecedented accessibility of GenAI created a fundamental ambiguity. Would this technology further entrench large, resource-rich incumbents, or would it democratize innovation by lowering barriers for new challengers? The net effect was theoretically unknown.



Market Concentration?

(Favors incumbents with capital and data)



Democratization?

(Lowers barriers for small, inexperienced founders)

Our Research Provides a Definitive Answer: GenAI is a Pro-Competitive Force

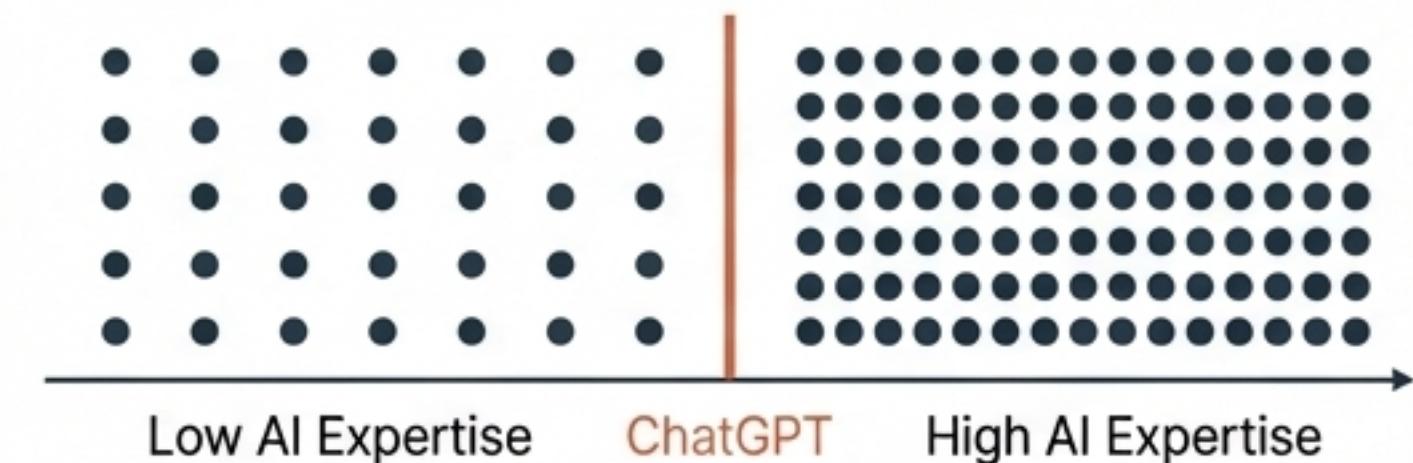
By analyzing over 12 million firm registrations in China, we exploit ChatGPT's release as a quasi-natural experiment. The data provides systematic, causal evidence that GenAI disproportionately boosts small-firm entry rather than reinforcing incumbent dominance.

Dataset

12.8 Million

New Firms Analyzed (2021-2024)

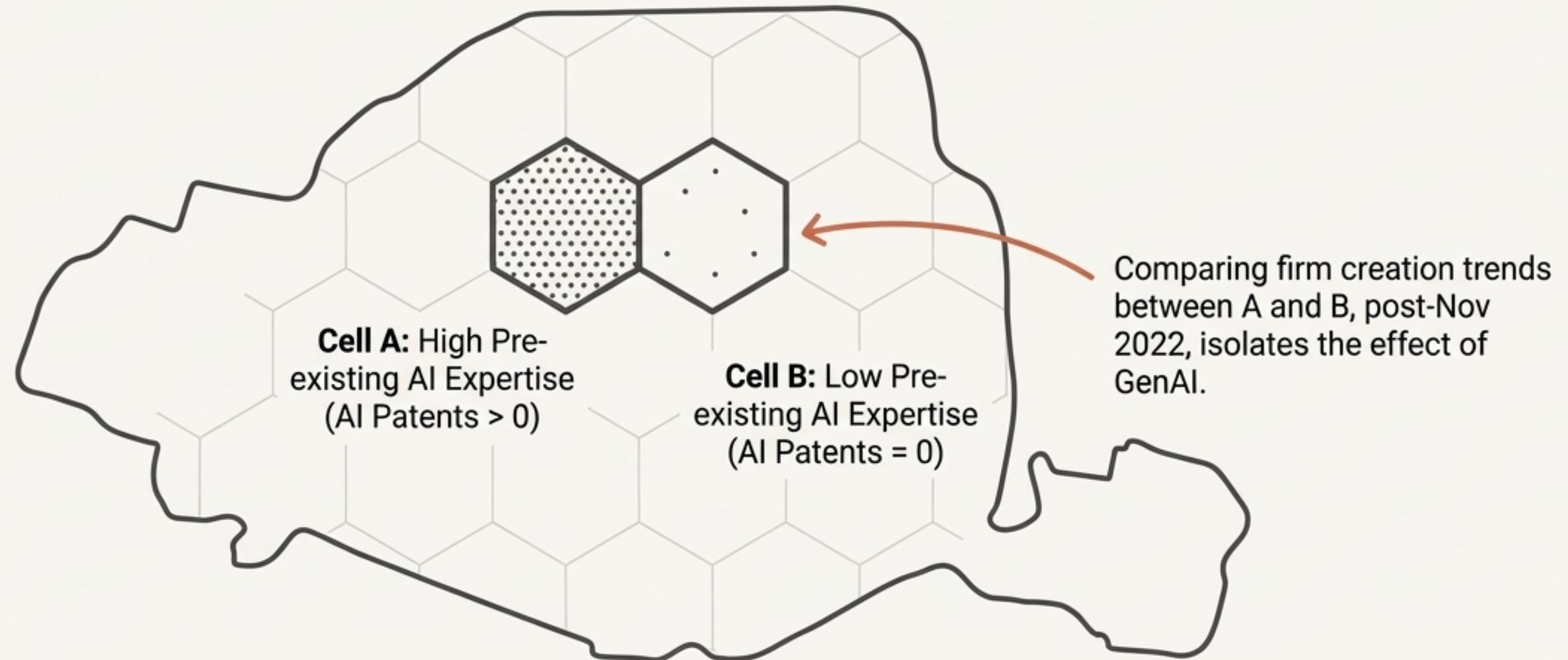
Method



A sharp temporal shock combined with fine-grained spatial variation in pre-existing AI human capital.

How We Isolated the Causal Impact of GenAI

Our empirical strategy compares changes in firm creation before and after ChatGPT's release between neighboring geographic grids ($\sim 5 \text{ km}^2$) within the same city. The only difference is their pre-2020 AI patent intensity—our proxy for localized AI expertise. This method controls for all city-level economic shocks and local seasonality.



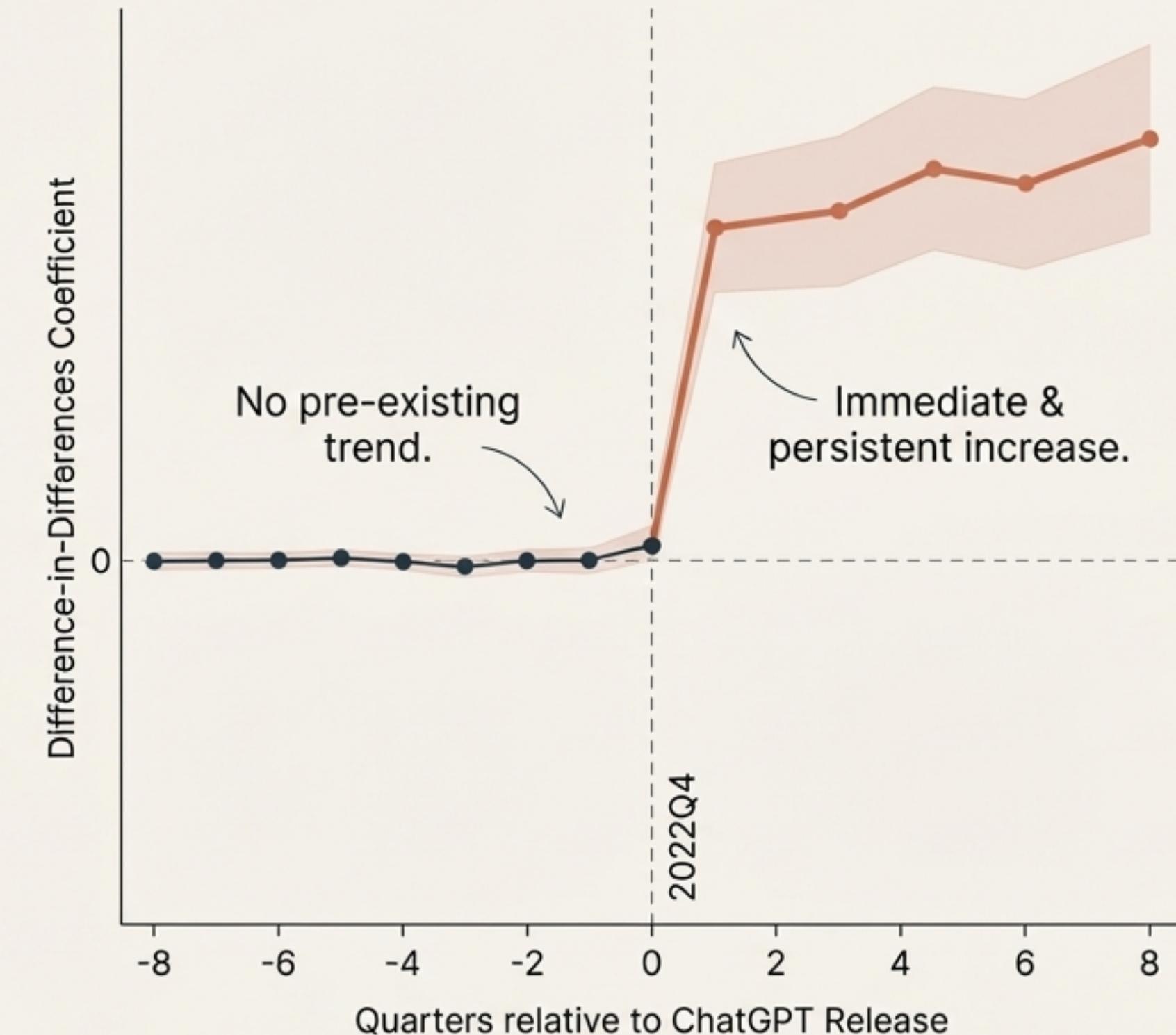
A Surge in New Venture Creation Followed the GenAI Shock

In areas with high pre-existing AI expertise, firm creation significantly increased immediately following ChatGPT's release. The effect is both economically substantial and persistent.

+5 additional new firms per high-AI grid-quarter.

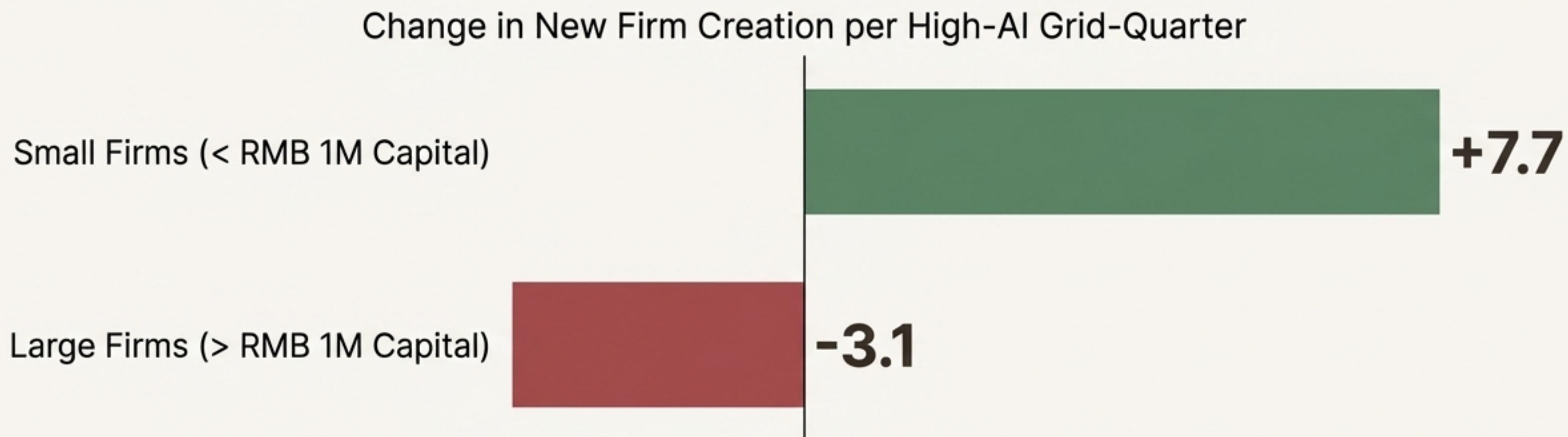
~410,000 additional ventures nationwide, accounting for 6% of total firm formation.

Differential Firm Creation in High-AI vs. Low-AI Grids



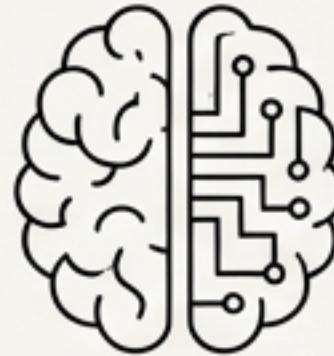
The Boom is Asymmetric: Small Ventures Rise as Large Ventures Decline

The aggregate increase in entrepreneurship masks a fundamental structural shift. The boom is driven entirely by small, resource-constrained ventures, while the creation of large, capital-intensive firms significantly declined in the same areas.



Takeaway: This suggests GenAI substantially lowers fixed organizational costs and the minimum viable scale for a new business.

GenAI Functions as a ‘Co-founder,’ Relaxing Three Key Entrepreneurial Constraints

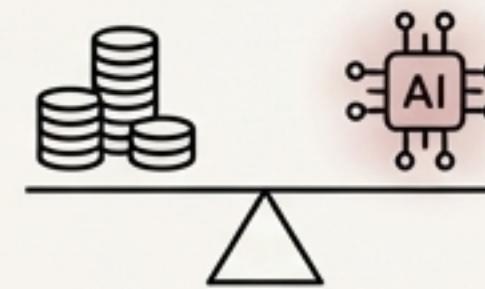


Experience Substitution

GenAI provides guidance, drafts documents, and automates tasks, reducing the need for prior operational know-how.

Evidence: **-1.5%**

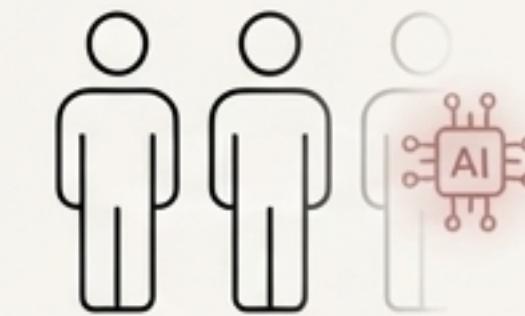
The share of experienced serial entrepreneurs launching new firms **declined by 1.5 percentage points**, as first-time founders entered the market.



Financial Constraint Relaxation

The ability to operate leaner reduces the need to pool capital from multiple investors at founding.

Evidence: New firms in high-AI areas are created with **1.4% fewer** created with **1.4% fewer** **shareholders** on average.



Labor Substitution

AI automates managerial and specialized roles (coding, design, marketing), enabling smaller founding teams.

-0.8%

New ventures are founded with **0.8% smaller** executive teams, an effect concentrated among small firms.

Even Experienced Founders Are Intentionally Building Leaner Ventures

The most compelling evidence of a structural shift comes from serial entrepreneurs themselves. In high-AI regions, experienced founders who chose to launch new businesses after the GenAI shock deliberately created much smaller, less capital-intensive companies than their previous ventures.

In high-AI grids, new ventures by serial entrepreneurs had registered capital that was...

Seven Times Lower

...than their founders' prior firms.

"This confirms that GenAI not only expands the extensive margin of entry (more first-time founders) but also shifts the intensive margin—experienced entrepreneurs deliberately choose leaner organizational forms."

The Catalyst is Pre-existing AI Human Capital

Access to GenAI tools alone is not sufficient. The entrepreneurial boom was exclusively concentrated in regions with a pre-existing density of AI researchers, engineers, and entrepreneurs. This highlights a critical technology-skill complementarity.

Implication: Regions lacking this specialized human capital risk falling behind as GenAI diffuses, creating potential for geographic inequality.



The Impact is Concentrated in AI-Downstream and Service-Oriented Sectors

The entrepreneurial surge is not uniform across the economy. It is largest in sectors where GenAI tools can be readily applied to product development, customer interaction, and content creation. Capital-intensive industries are largely unaffected.

Strongest Positive Effects



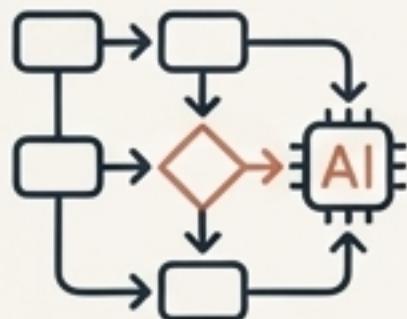
Minimal or Negative Effects



Insight: GenAI's entrepreneurial power operates through demand-side adoption and creative applications, not production-side automation.

The New Playbook I: Recalibrating Ecosystems for AI-Native Ventures

For Business Leaders & Accelerators



Shift Focus: From team assembly and headcount growth to AI-augmented workflows and operational efficiency.



Adapt Curricula: Teach prompt engineering, model selection, and API integration, not just traditional business scaling.

For Investors



Rethink Financing Models: Traditional equity financing may be less critical. Explore alternatives that align with capital-light, compute-heavy startups.



New Models: Revenue-Based Financing, API Credits, and Compute Subsidies.

The New Playbook II: Fostering Innovation and Managing Systemic Risk

For Policymakers



Cultivate AI Human Capital: Invest in broad AI literacy and upskilling programs. Prioritize digital infrastructure (cloud access, broadband) to support entrepreneurs outside of primary tech hubs.



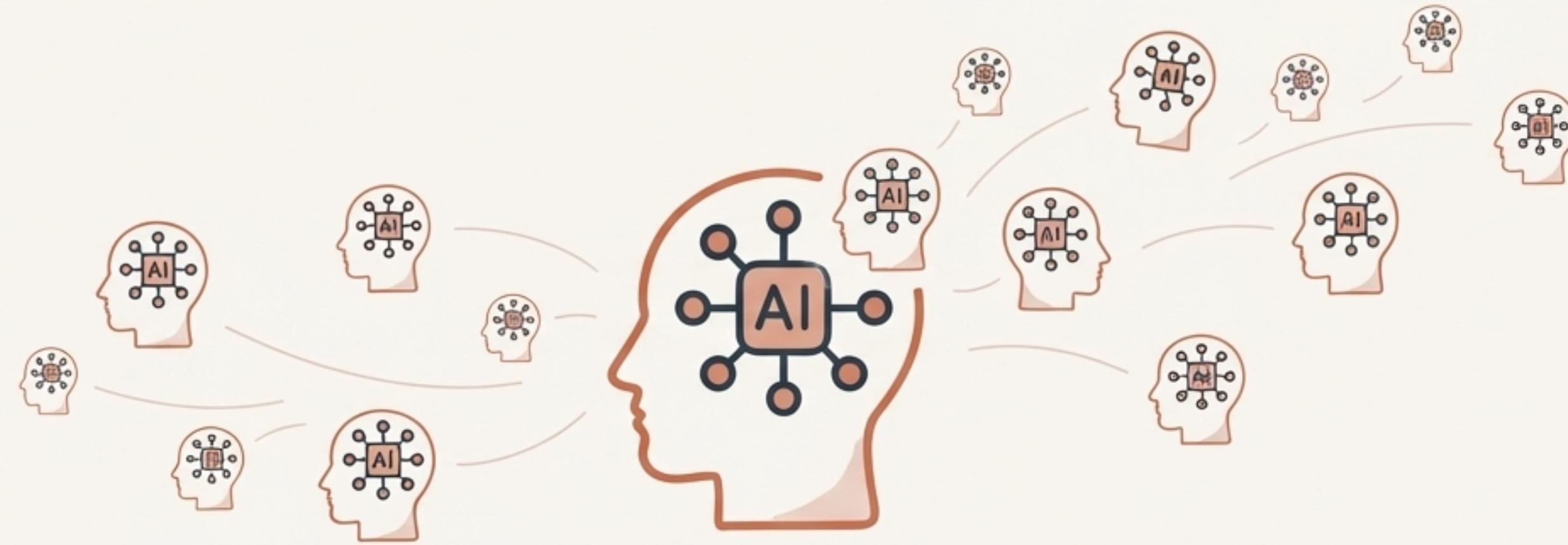
Encourage Distributed Expertise: Support remote collaboration platforms and knowledge-sharing networks to diffuse AI skills beyond core innovation centers.



Promote Responsible Innovation: Develop adaptive regulatory frameworks (e.g., sandboxes) to balance innovation with ethical guardrails against misinformation, IP infringement, and algorithmic bias.

The ‘Digital Co-founder’ Has Arrived, Ushering in an Era of Pro-Competitive Entrepreneurship

Summary: Generative AI is not merely a productivity tool; it is a fundamental economic force that is democratizing venture creation by lowering structural barriers related to experience, finance, and labor. The result is a surge in small, lean, and agile new ventures.



Final Thought

The defining questions are no longer *if* GenAI changes entrepreneurship, but how leaders, investors, and policymakers will navigate the long-run dynamics of firm survival, market quality, and inclusive growth in this new landscape.