

# INSIGHT

## *China's road to tech glory*

**Naubahar Sharif** believes its growing market size, governance model and ability to reap the benefits of globalisation will give it an unbeatable edge

A recent report on Chinese investments in research and development organisations in the US indicates Beijing's desire to leverage US-based research to generate new patents. This is part of China's concerted long-term effort to become the global leader in technology and it is clearly setting its sights on hi-tech, high-value-added industries on an ever-increasing scale.

Although there is widespread scepticism about China's capacity to be a global tech leader, it has three distinct advantages that should enable it to claim leadership in two to three decades.

First is China's rapidly growing domestic market. Already the world's second largest, the Chinese economy is likely to overtake the US economy by 2020 or soon after. It is well known that market size is a powerful indicator of demand, and that growing demand for new products and services drives innovation.

Indeed, China is now the world's largest producer in nearly a third of the most important industrial sectors, and leads the world in producing steel, cement, automobiles and fertiliser.

The second big advantage lies in its autocratic model of governance. Few developed or newly emerging economies are growing under governments that enjoy the latitude China has to shape industrial and business policy. Fuelled by a 20 per cent annual growth in research and development investments, China is encouraging "indigenous

innovation". Having doubled the share in gross domestic product of R&D expenditure since 1999, it is on pace to triple that rate by 2020. Say what you will about China's approach to governance, it can channel public funding and facilities to spur growth where it sees fit.

Finally, China will continue to reap the benefits of globalisation for the foreseeable future. This means, on the one hand, that China can acquire innovative technologies on the global market without having to foot the total bill for the R&D and commercialisation of such technologies. Examples of China's increasing presence in the global marketplace include the acquisition by BAIC Group of the intellectual property of Swedish automaker Saab, and Geely's acquisition of Volvo in 2010.

On the other hand, globalisation means China will be increasingly attractive to foreign firms seeking new markets, creating what economists call spillover effects.

Foreign companies will increasingly invest in and partner Chinese firms to cash in on the nation's growth. Foreign firms are also increasingly deploying state-of-the-art technology in China and even seeking patents there, with corresponding technological spillovers to Chinese firms.

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