



China's Path to Innovation

Over the past three decades, China has experienced rapid economic growth and a fascinating transformation of its industry. However, much of this success is the result of industrial imitation and China's continuing success now relies heavily on its ability to strengthen its indigenous innovation capability. In this book, Xiaolan Fu investigates how China can develop a strategy of compressed development to emerge as a leading innovative nation. The book draws on quantitative and qualitative research that includes cross-country, cross-province and cross-firm analysis. Large multi-level panel datasets, unique survey databases, and in-depth industry case studies are explored. Different theoretical approaches are also used to examine the motivations, obstacles and consequences of China's innovation with a wider discussion around what other countries can learn from China's experience. This book will appeal to scholars and policy-makers working in fields such as innovation policy, technology management, development and international economics and China studies.

XIAOLAN FU is Professor of Technology and International Development and Founding Director of the Technology and Management Centre for Development at the University of Oxford. Her research interests include innovation, technology and industrialisation; trade, foreign direct investment and economic development; emerging Asian economies; and innovation and productivity in the UK and US. She also has first-hand experience working in the business and academic sectors in China before coming to the UK.

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Professor Fu has integrated a variety of scholarly articles from the firm level to the industry level to the national policy level, to produce the first comprehensive treatment of Chinese innovation activities from an open innovation perspective. Her masterful book points the way towards open innovation with Chinese characteristics.

Henry Chesbrough, Professor at UC Berkeley's Haas School of Business and author of *Open Innovation*

That China is the workshop of the world is now a 'given'. Professor Fu has invested years in the search for clues to how the goods in the China workshop have moved from being 'assembled in China' through 'invented in China' to 'invented and commercialised in a complex open engagement with the world's capital and skilled labour'. This book is the authoritative result and is essential reading.

Barbara Harriss-White, Emeritus Professor of Development Studies, Oxford University and co-editor of *China-India: Pathways of Economic and Social Development*

This fascinating book by a leading Chinese scholar is hugely informative of the challenges China faces in its quest to become a major global innovative economy. It populates a knowledge gap, challenges our conventional wisdom and provides important insights for corporate and government policy makers alike.

Raphael Kaplinsky, Professor of International Development, The Open University

China achieved an average annual growth rate of 9.8% for 35 years, made possible only by continuous technological innovations, after the transition from a planning economy to a market economy in 1979. Such a long period of extraordinary growth was unprecedented in human history. This book carefully studies China's open national innovation system at national, regional and firm levels. It deciphers how China was able to achieve such a remarkable success in the past, examines how China may sustain dynamic growth in the future and suggests what other countries can learn from China's success. The book is a must-read for anyone who wants to understand Chinese economic development.

Justin Yifu Lin, Professor, Peking University and Former Chief Economist, The World Bank

Finally, we have an analytical volume that combines economic theory, international experience, and China's socio-economic conditions to formulate a most credible strategy to greatly strengthen China's capacity to innovate. Xiaolan Fu's 'Open National Innovation System' approach deserves careful study by other developing countries because it is also applicable to them.

Wing Woo, Professor, University of California at Davis and President, Jeffrey Cheah Institute on Southeast Asia, Malaysia

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Contents

<i>List of figures</i>	<i>page</i> vii
<i>List of tables</i>	x
<i>Preface</i>	xiii
<i>List of abbreviations</i>	xvii
Introduction	1
1 Introduction	3
2 Innovation in China since the reforms: An overview	15
Part I International knowledge transfer and technological takeoff	45
3 Foreign direct investment, absorptive capacity and regional innovative capabilities: Evidence from China	47
4 Processing trade, FDI and international competitiveness of the Chinese high-technology industries	74
5 Indigenous and foreign innovation efforts and technological upgrading in China	108
Part II Development of indigenous innovation capacity and catch-up	139
6 The role of state policy in shaping innovation practices: The case of open innovation in China	141
7 Open innovation as a response to constraints and risks	170
8 The dual role of universities in industrial innovation: comparing China and the UK	201

vi		<i>Contents</i>
9	Technological learning, tacit knowledge acquisition and industrial upgrading: The Chinese optical fibre and cable industry	236
10	Leapfrogging in green technology: The solar-PV industry in China and India	256
	Part III Towards a global innovation leader	277
11	Internationalisation, reverse learning and capabilities upgrading: The case of Huawei and ZTE	279
12	International collaboration and radical innovation	314
13	Innovation efficiency and the cross-country gap in innovation	325
14	Capabilities, incentives, institutions and national innovation performance	358
	Conclusions	379
15	Conclusions: Open national innovation system and China's path to innovation	381
	<i>References</i>	396
	<i>Index</i>	430

Figures

2.1	China's R&D expenditure, 1995–2012	<i>page</i> 17
2.2	R&D expenditure in China and other economies, 1995–2012	18
2.3	Composition of R&D by types of activities: basic research, applied research and experimental development	19
2.4	R&D composition by funding sources, 2003–2011	20
2.5a	Total number of R&D personnel	21
2.5b	R&D personnel by executive entity, 2009	21
2.6	Comparison of R&D personnel per thousand employees in China and OECD economies, 2000–2011	22
2.7a	Expenditure for acquisition of foreign technology in China, 2000–2012	23
2.7b	Foreign technology imports in China, percentages, 2012	24
2.8	Number of patent applications vs number of granted patents, 1995–2012	25
2.9	Triadic patent families across BRICS, 1999–2011	26
2.10	Number of triadic patent families in China and other OECD economies, 1999–2011	27
2.11	Output of R&D: index articles published in international journals	28
2.12	Citations of scientific papers published, 2000–2010	28
2.13	Innovation performance: international comparison, 2012	29
2.14	R&D expenditures and intensity of enterprises in the above-scale manufacturing industries, 2012	30
2.15	Number of R&D personnel across sectors, 2009	31
2.16	Innovation output across industries: number of patent applications, 2010	32
2.17	Innovation outputs across industries: new product sales and new product export values, 2012	33

2.18	Export and import volume of high-tech products, 1995–2012	34
2.19	Innovation outputs by ownership of firms: new product sales and new product export values, 2012	35
2.20	R&D expenditures across different ownership structures in industrial enterprises above designated size, 2006–2012	36
2.21	R&D expenditures across different ownership structures in industrial enterprises above designated size, 2006 and 2012	36
2.22	R&D personnel across different ownership structures in industrial enterprises above designated size, 2006–2012	37
2.23	Patent applications across different ownership structures in industrial enterprises above designated size, 2009–2012	38
2.24	New product sales and new product exports across different ownership structures in industrial enterprises above designated size, 2009–2012	39
2.25	R&D expenditures and R&D/GDP ratios across China, 2012	40
2.26	R&D expenditures across China, 2000 and 2012	40
2.27	Ratio of R&D expenditures in GDP across China, 2000 and 2012	41
2.28	Mean patent application numbers across China, 2000 and 2012	42
2.29	R&D funding sources across China, 2009	42
3.1	Trade and FDI in China, 1985–2004	53
3.2	Regional distribution of FDI stock in China, 2005	53
3.3	Regional distribution of number of invention applications, 2004	56
3.4	Regional distribution of sales of new products, 2004	56
3.5	Regional distribution of industrial R&D, 2004	58
3.6	Innovation activities: foreign and indigenous enterprises in China, 2004	60
3.7	Regional innovation efficiency, China	67
4.1	Share of processing exports in China's total high-technology exports	81
4.2	Percentage of processing exports in total exports, electronic industry of China, 2006	92

<i>List of figures</i>	ix
5.1 Technical efficiency by ownership and technology category	122
5.2 TFP growth in Chinese manufacturing firms, 2001–2005	123
5.3 Distribution of firms on the frontier	124
5.4 Technical change and efficiency improvement in Chinese manufacturing firms, 2001–2005	125
8.1 Percentage of innovative Chinese firms reporting R&D collaboration with various types of partners	216
8.2 Percentage of Chinese firms reporting R&D collaboration with universities in various countries	216
8.3 Percentage of UK firms reporting R&D collaboration with various types of partners	226
8.4 Percentage of UK firms reporting R&D collaboration with universities in various countries	227
9.1 The production chain in the optical fibre and cable industry	242
10.1 Technology transfer and indigenous knowledge-creation mechanisms adopted by solar-PV industry in China and India	269
10.2 Mixing and sequencing of technology creation and acquisition mechanisms in solar-PV industry in China and India	270
11.1 Stock of China's outward direct investment, mil\$	284
11.2 Manufacturing firms with overseas investment	286
11.3 Main incentives for investing in developed countries	286
11.4 Main incentives for investing in developing countries	287
11.5 The reverse learning chain from customers	298
13.1 National innovation system: a system theoretic framework	330
13.2 Total national R&D as percentage of GDP for major industrial countries	333
13.3 Patents granted by USPTO, 1982–2006	334
13.4 Patenting capacity of selected countries	347
13.5 Patenting efficiency of selected countries	347
13.6 Expected innovation capacity: emerging economies	349
13.7 Actual performance: patents granted by USPTO	350
13.8 Innovation efficiency of emerging economies	351
14.1 National innovation performance	360

Tables

3.1 FDI intensity: share of foreign assets in total industrial assets	<i>page 55</i>
3.2 Expenditure on technology acquisition, 2004	57
3.3 Growth rate of R&D expenditure	59
3.4 Impact of FDI on regional innovation capacity	64
3.5 Impact of FDI on regional innovation efficiency	68
3.6 The FDI-innovation-growth linkage in the coastal and inland regions	70
4.1 Summary statistics of the variables	85
4.2 Exports and innovation indicators of domestic and foreign firms, 2007	91
4.3 Export performance of top 10 exporting high-technology industries: SIC four-digit level, 2007	93
4.4 Probit model estimates of export decisions in the high-technology industry	95
4.5 Spillovers from PT-FDI and export value of domestic firms	98
4.6 Determinants of export performance in industries with fast indigenous export growth: IV estimates	101
4.7 Spillovers from PT-FDI and export performance of indigenous firms: IV estimates of alternative spillover measurements	103
5.1 Summary statistics of the variables	115
5.2 Determinants of TFP growth and technical change: GMM estimates of full sample of domestic firms	126
5.3 Determinants of technical change: GMM estimates by industry group	129
5.4 Determinants of efficiency improvement: GMM estimates by industry group	130
6.1 Sources of product innovation	143
6.2 Sources of process innovation	144

<i>List of tables</i>	xi
6.3 The importance of information sources in innovation activities	145
6.4 The main public policies for open innovation in China	156
6.5 Selected cases of open innovation in Chinese firms	160
6.6 Types of innovation mode and frequencies	164
7.1 Descriptive statistics and correlations	183
7.2 Determinants of breadth of openness: ordered-Logit model estimates	184
7.3 Determinants of depth of openness: ordered-Logit model estimates	186
7.4 Robustness check using OLS	188
7.5 Firms' responses to constraints and risks by ownership	191
7.6 Effects of constraints and risks by size and industry	194
8.1 Definition of variables	212
8.2 Universities and firm innovation in China: Tobit model estimates	218
8.3 Robustness check: Generalised Tobit model estimates	221
8.4 Robustness check: instrumental variable model estimates	224
8.5 Universities and firm innovation in selected university-concentrated cities in China	225
8.6 Universities and firm innovation in the UK: standard Tobit model estimates	228
9.1 Perception of the technological characteristics of the optical fibre and cable industry	244
9.2 Definition of variables	245
9.3 Factor analysis	247
9.4 Knowledge sources and technological learning	249
9.5 Does the embeddedness of tacit knowledge in the industry matter?	251
9.6 Does the embeddedness of tacit knowledge in the industry matter?	252
10.1 Renewable technology targets for 2020 in China	263
10.2 Renewable technology targets for 2022 (end of 13th Plan) in India (in MW)	265
10.3 Details of leading solar-PV companies in China and India	266
10.4 Sustainability-oriented innovation systems of China and India	272

11.1	Industry distribution of China's OFDI: by FDI stock and number of subsidiaries, 2010	285
11.2	Innovativeness of firms: comparing firms with and without OFDI	288
11.3	Huawei's history of alliances	301
12.1	Collaborative innovation activities	317
12.2	Types of collaborators and regional distribution	318
12.3	The impact of collaboration on innovation performance in Chinese firms: Tobit model estimation results	319
12.4	The impact of international collaboration on novel innovation in China: Tobit model estimation results	321
13.1	Definition and sources of variables	341
13.2	Stochastic frontier analysis of basic patenting capacity	342
13.3	Determinants of patenting efficiency	344

Preface

This book is an outcome of my research on innovations in China over the past 10 years. I started my research on innovation as a project team member of a Cambridge-MIT joint project on 'International Innovation Benchmarking', which compared innovation activities in Europe, the UK in particular, and the United States. Innovations were a key area of concern for policy makers and business managers, as well as the academic scholars. Although China's economic reforms started in 1978, up to the early 2000s the Chinese economy had been driven by system reforms, investment, exports and foreign direct investment (FDI) at different periods. Innovation was still a concept that had never really come to the centre of China's development strategy, nor had it arrived at the debate on the drivers of its long-term economic growth. Having witnessed the competition among industrialised countries for leadership in innovation and the priority that has clearly been given to skills and innovation in policy making in these countries, I started my pursuit to understand how to build innovation capabilities in a developing country such as China. I strongly believe that this will be a crucial area for China, not only for academic research but also for policy making and business management in the real-world context. In fact, without much waiting, the Chinese government began to change its development strategy in 2006. It placed development of indigenous innovation as the top priority in its official national development plan.

As a researcher who has a strong interest in China's industrial competitiveness and its external trade and investment, I have worked extensively in these areas; hence, I started my research quest from my understanding of the sources of innovative knowledge and technology in China and the processes of innovation diffusion. I gradually moved on to researching the conditions and processes of innovation creation in developing countries. I also examined the relationship between different paths at different stages of development of a country, their advantages and disadvantages and the conditions for effectiveness of each path. My

past work experiences and interest in studying innovations in the developed and other developing countries allowed me to examine China's path from an international comparative perspective. This has formed the basic structure and approach of research that I present in this book.

China's Path to Innovation is a combination of a selected number of my published journal papers and several new studies on some of the most recent topics regarding China's ongoing transformation from imitation to innovation. It is a serious academic book based on 10 years of research and reflection. All published and unpublished new papers are selected and organised to provide a systematic, comprehensive and coherent study of China's path to innovation, although each chapter is fairly self-contained. Journal publication offers a great advantage that one's research comes under close scrutiny through the peer review process and can benefit greatly from it. My aim is to publish the more original parts of the book in this way with updated data and information. The hope is that the whole will add up to more than the sum of its parts and that we can identify and develop a general model of the technology development strategy of the developing countries based on a series of peer-reviewed, in-depth studies of individual factors, mechanisms and cases.

Many acknowledgements and thanks are due. Since 2005, my research on innovation and on China has been supported by substantial grants from the Economic and Social Sciences Research Council (ESRC), the Engineering and Physics Sciences Research Council (EPSRC), the British Academy, the Cairncross Foundation and the State Administration of Foreign Experts Affairs (SAFEA) of China. I thank these bodies for their financial support and for the confidence that they have shown in my research.

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'Indigenous and foreign innovation efforts and drivers of technological upgrading', *World Development*, 39 (2011) (Chapter 5); Xiaolan Fu and Hongru Xiong, 'Open innovation in China: policies and practices', *Journal of Science & Technology Policy in China*, 2 (2011) (Chapter 6); Xiaolan Fu, Hongru Xiong and Jizhen Li, 'Open innovation as a response to constraints and risks and the moderating role of governance', *Asian Economic Papers*, 13 (2014) (Chapter 7); Xiaolan Fu, Jizhen Li and Martin Johnson, 'Internal and external sources of tacit knowledge: evidence from the optical fibre and cable industry in China', *Journal of Chinese Economic and Business Studies*, 9 (2011) (Chapter 9); Xiaolan Fu and Jing Zhang, 'Technology transfer, indigenous innovation and leapfrogging in green technology: solar-PV panel industries in China and India', *Journal of Chinese Economic and Business Studies*, 9 (2011) (Chapter 10); Xiaolan Fu and Qing Gong Yang, 'Exploring the cross-country gap in patenting: a stochastic frontier approach', *Research Policy*, 38 (2009) (part of Chapter 13); Xiaolan Fu and Rongping Mu, 'Enhancing China's innovation performance: the policy choice', *China & World Economy*, 22 (2014) (part of Chapter 14).

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Finally, I can hardly express the debt of gratitude I owe to my family, especially my husband, Shaohui, and my son, Yujie, for their great love and support. Without their support, the book would not have come to fruition.

Xiaolan Fu

Abbreviations

ABC	Absorptive capacity
CDB	China Development Bank
CDMA	Code division multiple access
CILG	Central innovation leading group
CIS	Community Innovation Survey
COEs	Collective-owned enterprises
CPO	Chinese State Intellectual Property Office
DEA	Data envelopment analysis
EIS	European Innovation Scoreboard
EP	Export processing
EPZs	Export processing zones
EU	European Union
FDI	Foreign direct investment
FIEs	Foreign invested enterprises
GDP	Gross domestic products
GLLAMMs	Generalized linear latent and mixed models
GMM	Generalised method of moments
GVC	Global value chains
HKTM firms	Hong Kong, Taiwan and Macao firms
HMT	Hong Kong, Macau and Taiwan
ICT	Information and communication technology
IMD	Institute for Management Development
IPR	Intellectual property rights
ITU	International Telecommunication Union
JV	Joint venture
MLEs	Medium- and large-sized enterprises
MNEs	Multinational enterprises
MOST	Ministry of Science and Technology of China
MSTI	Main science and technology indicators
NIEs	Newly industrialised economics

NIP	National innovation performance
NIS	National innovation system
OBM	Original brand manufacturers
ODM	Original design manufacturers
OECD	Organisation for Economic Co-operation and Development
OEM	Original equipment manufacturers
OFDI	Outward foreign direct investment
OI	Open innovation
OLS	Ordinary least squares
ONIS	Open national innovation system
OT	Ordinary trade
POEs	Privately owned enterprises
PRIs	Public research institutions
PT-FDI	Processing trade–FDI
R&D	Research and development
REF	Research excellence framework
S&T	Science and technology
SEZs	Special economic zones
SFA	Stochastic frontier analysis
SHCs	Shareholding companies
SMEs	Small and medium enterprises
SOEs	State-owned enterprises
SSB	State Statistical Bureau
STP	Strategic technology partnering
TFP	Total factor productivity
UNCTAD	United Nations Conference on Trade and Development
USPTO	United States Patent and Trademark Office
WBDI	World Bank development indicators
WCY	World Competitiveness Yearbook
WFO	Wholly foreign owned
WTO	World Trade Organization
ZTE	Zhongxing Telecommunications Equipment Corporation