

China's Innovation Challenge

The miracle growth of the Chinese economy has decreased from a compound annual growth rate of 10 percent to less than 7 percent by 2015. The two engines of growth – export on a scale never before witnessed and massive infrastructure investments – are reaching the point of diminishing returns. This poses the central question explored in this book – can China escape the middle-income trap? Assuming current political arrangements remain unchanged and that it does not or cannot adopt Western sociopolitical economic regimes, can China develop an indigenous growth model centered on innovation?

This compilation gathers leading Chinese and international scholars to consider the daunting challenges and complexities of building an innovation-driven Chinese growth model. Providing several comprehensive perspectives, it examines key areas such as the institutional system, technology, sociocultural forces, and national policy. The analyses and their conclusions range from strong optimism to deep pessimism about China's future.

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China's Innovation Challenge

Overcoming the Middle-Income Trap

Edited by
ARIE Y. LEWIN
MARTIN KENNEY
JOHANN PETER MURMANN



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Preface

Technological Innovation to Play Decisive Role in Driving China's Economic Transformation

Premier Li Keqiang, Seminar on Sixtieth Anniversary of the Establishment of the Academic Division of the Chinese Academy of Sciences, July 28, 2015

The chapters in this volume originated at the Inaugural *Management and Organization Review* (MOR) Research Frontiers Conference held at the Hong Kong University of Science and Technology in December 2014. The guiding approach to this collection is the concern articulated eloquently by the World Bank and the Development Research Centers of the Chinese State Council in their joint 2013 report *China 2030*. The questions this book and its authors explore are whether China needs the massive social and political structural reforms that some authors believe are necessary or whether China can undertake a transition to continue its economic growth to become a wealthy nation using indigenous solutions that eschew reforms based on models adapted from developed countries. While there continues to be a debate about whether “middle-income traps” truly exist (Bulman, Eden, and Nguyen 2014), we accept the basic proposition that continuing significant economic growth represents a daunting challenge for China, as the portfolio of highly effective policies that created surplus labor in the rural economy that made China the manufacturing hub of the world, and created the resources for building infrastructure (roads, railroads, ports, airports, electric power, telecommunications, etc.), new cities, and massive residential housing projects, runs its course.

As China considers various combinations of policy options and reform initiatives, it is clear that it faces policy challenges at every level, from macroeconomics to invigorating new sources of innovation and growth, energizing technological upgrading of existing industrial and service sectors, exploiting and entering new industrial and service sectors, galvanizing a new culture of entrepreneurship and entrepreneurial startup companies, reforming higher education, decreasing debilitating institutional interdependencies, and dramatically lowering intra-economic

transaction costs, while improving its quality of life and expanding social welfare and health care and environmental sustainability.

Policy-makers and economists in China have been analyzing and evaluating lessons from earlier economic development experiences in Japan, Taiwan, Israel, and Korea and of the city-states of Singapore and Hong Kong. Although lessons can be learned, these experiences cannot be easily replicated by China. Founding conditions, history, sheer scale, and the government system raise serious questions as to their applicability in China. The chapters in this book explore the arguments as to why, why not, and how China might evolve a combination of economic development industrial and sociopolitical policies to continue and sustain its trajectory of development and avert the World Bank angst of not being able to escape the middle-income trap. What is unique about this book is its timely exploration of multifaceted elements of the China future economic development quandary. The book incorporates micro-organizational behavior, macro-organization and strategy, knowledge creation and innovation, and industrial policies, as well as the imprinting role of founding conditions and history.

The book frames a dialectic that contrasts two scenarios. The first, optimistic scenario argues that China can build ever-stronger innovation capability and catch up with the most advanced economies in the gross domestic product (GDP) per capita. The second, more pessimistic scenario makes the case that, without radical reforms, existing Chinese political and economic institutions will inexorably relegate China to the middle-income trap. These two scenarios structure the analyses and contributions in the book. It would be foolish to try to predict which of these scenarios will unfold in China over the next twenty years. The book, however, illuminates the hurdles China faces and what needs to be done to surmount them. We are certain that policy-makers are acutely aware that the “new normal” of slower economic development presents complex and difficult challenges that demand new ideas and new directions for change that can take Chinese firms and society beyond incremental improvements in quality and efficiency.

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