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Waves of new entrepreneurs will power Chinese innovation

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Edward Tse says despite the Western portrayal of China as a laggard in innovation, it is in reality a hive of experimentation - thanks to competition - and success is sure to follow

US Vice-President Joe Biden blasted China recently in a speech about foreign policy, arguing that the country hasn't produced anything innovative. "China - and it's true - is graduating six to eight times as many scientists and engineers as we have. But I challenge you, name me one innovative project, one innovative change, one innovative product that has come out of China," he said.

In the same vein, in an article in *Harvard Business Review*, US academics Regina Abrami, William Kirby and Warren McFarlan sought to explain "Why China can't innovate".

Biden and the academics are wrong.

Does China breed innovation? Most who get their information from the Western media wouldn't think so, as China is often associated with copies, lack of freedom of speech, poor intellectual property rights protection, rote-learning education and an overbearing state sector. Outsiders tend to think China lacks the fundamentals for successful innovation. But this view is both simplistic and superficial.

Lack of intellectual property rights protection is a real issue, but it hasn't stopped innovation taking place. Over the past decade, there have been many examples of innovation in both product technology and business models.

As for the dominance of the state economy, even that sector can innovate. Large-scale examples include China's space programme, its expanding high-speed rail network, the world's highest-elevation railway (to Tibet), and the world's fastest supercomputer. Like complex world-changing innovations anywhere, they would not have happened without intensive government participation, and it will take years to see their full impact.

However, most of China's upcoming innovation will not come from the state. It will come from the companies and individuals who compete in China's increasingly open economy. China is undergoing a measured but definite process of deregulation, sector by sector. The government reaffirmed this trajectory at its third plenum when it was emphasised that market forces will play a "decisive role" in economic development and non-state capital will gain access to more sectors.

The size of China's market and the potential for profit mean that when the government opens

up a sector, it becomes an arena for some of the world's most intense competition. This forces companies to create the best products, services and business models.

There's also a strong "why not me?" mentality among Chinese entrepreneurs. They see themselves as innovators, and when an opportunity opens, they go for it. Most may fail, but with such a huge population, even a small percentage of successes will encourage many others to try their luck. In short, waves of new entrepreneurs in China will be pushing for greater experimentation and more innovation.

Xiaomi, one of China's leading smartphone players, is an excellent example of an innovative company in a highly competitive industry. Xiaomi's leader, Lei Jun, understood the power of the internet and built his company's business model by "listening to customers" through social media - the concept known as crowdsourcing. The strategy is working so well that Xiaomi's revenues grew from zero in 2010 to US\$5 billion last year, with the company now reportedly valued at over US\$10 billion.

The late Steve Jobs didn't believe in focus groups; Lei takes the opposite approach, and is convinced customers will be the best ones to tell him how his products should be designed and how its service model should be developed.

At a more basic level of innovation, Haier, a leading Chinese white goods manufacturer, quickly gained market awareness and share by introducing a washer capable not only of cleaning clothes but also potatoes, among many other products. This sprang from a customer complaint and is an example of Haier's "customer centric" management philosophy.

Some say Chinese companies can't develop technology. However, in seven years, Shenzhen-based DJI Innovations, started by young entrepreneur Frank Wang Tao, now supplies more than 50 per cent of global demand for unmanned aerial vehicles for the commercial and industrial sectors, and continues to expand.

Not every Chinese company will be like Haier or DJI, but the market is changing so rapidly that there are major incentives for Chinese companies - along with foreign ones and joint ventures - to be agile and innovative.

To successfully breed innovation, a country must be tolerant of mistakes and failures. These failures will include short-lived innovations, but they are part of a process necessary to sustain a culture of innovation. Tencent's QQ, for example, was a precursor to WeChat, a fast-growing Twitter/WhatsApp type of platform. Although only three years old, WeChat already has over 600 million registered subscribers and over 350 million active users. It introduced voice capability before WhatsApp, along with a more recent payment capability that is undercutting China's dominant incumbent, Alipay of Alibaba.

Telecoms operators see WeChat and Sina's Weibo as competitors because they eat into their own text messaging businesses, and the prevalence of the internet, in particular wireless internet, is fast cutting out traditional distribution methods. Only a few years ago, Gome and Suning were the dominant retailers through their "bricks and mortar" stores. Today, Suning is having to quickly transform itself into an "O2O" (online to offline) retailer.

All of this should be seen from a historical perspective. China's market economy is still

developing, and it's now been slightly over two decades since Deng Xiaoping's now famous southern tour in 1992. This fundamental transformation from a fully planned economy is still just a small blip in China's long history.

As China's economic transformation continues, more and more monopolies will be broken down. Much of this will be driven by the government but some will be driven by the market. State-owned enterprises will remain important, but non-state companies have, for the first time, been put on an equal footing.

Experimental free trade zones like that of Shanghai will eventually be established in more cities, and efforts made to create economic conditions conducive to innovation.

Entrepreneurship is vibrant and omnipresent in China. This spirit and the intensive competition drive innovation, at an unprecedented speed and intensity. An arrogant view that China can't innovate is not only shortsighted but also untrue.

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