

Book Review: China's Next Strategic Advantage: From Imitation to Innovation by George S. Yip and Bruce Mckern

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In China's Next Strategic Advantage: From Imitation to Innovation, George S. Yip and Bruce McKern suggest that China has leapt successfully from being an imitative to an innovative country. As Chinese companies become increasingly innovative and perform better in domestic and international markets, the authors argue that other countries need to learn from China or risk lagging behind. Besides analysing both Chinese firms and MNCs in China, the book also taps into questions of open innovation and intellectual property protection practices. Yao Han appreciates the use of detailed examples and cases in illustrating the process towards innovation in China.

***China's Next Strategic Advantage: From Imitation to Innovation*. George S. Yip and Bruce McKern. MIT Press. 2016.**

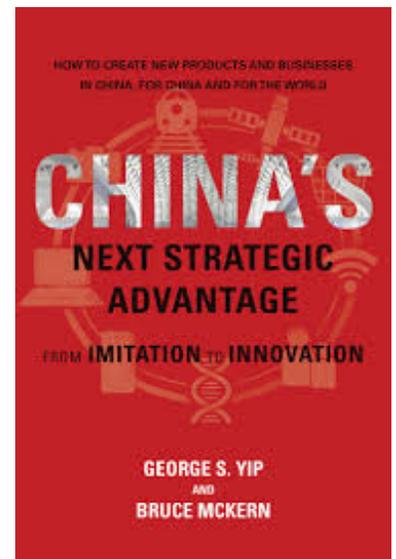
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There are some common factors that lead to innovation for all countries in the world. In this new book, *China's Next Strategic Advantage: From Imitation to Innovation*, George S. Yip and Bruce McKern outline the special characteristics of China's path from imitation to innovation.

Four factors have driven innovation in China, which fall into two categories: customers and culture; and capabilities and cash. Besides this, enablers of innovation on both the supply and demand side lead local companies and MNCs to innovate. Supply enablers include the very large number of relatively low-cost engineers and scientists (especially the increasing number of returnees educated abroad), government support, the famed entrepreneurial spirit of Chinese business people and evolving local Internet-related industries extensively funded by the Chinese government. Demand enablers include the rapid growth of China's market, multiple market spaces, a lack of tradition in terms of customers' spending habits resulting from the discontinuity created by the early years of the Communist system, China's need for simpler and cheaper products and fast-moving large-scale government projects.

The main method of this book is the case study. It uses vast cases and mini-examples to vividly illustrate the specific features of local companies and multinationals in China on their way to innovation. The samples for different topics usually cover a wide range of stakeholders. For example, on the subject of open innovation, the interviewees include representatives from Chinese companies, foreign multinational companies in various sectors, major Chinese universities, China's Ministry of Education and Ministry of Science and Technology, the Science and Technology Committee of the Shanghai Municipal Government and the China Academy of Sciences. By conducting vast interviews with numerous representatives, the book is rich in detailed examples for readers to explore.

For example, *China's Next Strategic Advantage* is useful for companies running businesses in China as it provides specific instances of the keys to success in ordinary operations – including a company's relationship with the government. The book suggests that to be successful in China's market, one needs to be embedded in China's innovation ecosystem. That includes applying for funding from the local government first, and then from the central government. Another example relates to Chinese talents, who might be more conservative in speaking their ideas.



Company managers may find the following practice useful: having these employees exchanged to experience working in headquarters in other countries or organising the brainstorm meeting in a different way.



Image Credit: Beijing CBD – Jianwai SOHO, Yintai, WTC, Jinguang (CobbleCC CC BY SA 3.0)

Besides these cases, the book utilises indicators of innovation to quantitatively illustrate the growth in the innovation performance of China. It numerates several global rankings to indicate the position of Chinese companies in terms of their innovation investments and outputs, such as the 2014 EU Industrial R&D Investment Scoreboard and the Thomson Reuters Top 100 Global Innovators list. To show the innovation output of China, this book chooses four groups of indicators: scientific scholarship; China's share of global high-technology manufacturing; its share of global high-technology exports; and China's ranking on indices of innovativeness. Researchers may raise some interesting questions for further study from those numbers: for example, what does the distribution of the industrial R&D investment look like for Chinese companies? And what hinders Chinese companies from increasing this?

A strand of research related to this book is the role of the Chinese government in promoting innovation in China. Yip and McKern recognise that the increasing number of returnees play a very important role in promoting the innovative capabilities of China and point out the value of entrepreneurial spirit in enabling innovation. These are analysed by this book more as a fact than a strategy actively promoted by the government, though it acknowledges the effects of government support. Behind the increasing amount of relatively low-cost engineers and scientists, it is the national strategy that expands the scale of higher education and adopts policies that can attract scientists educated abroad to return to work in China. Similarly, the large number of start-ups that are born and grow in an increasingly friendly environment surrounded by stimulating policies from the government. Hence, it may enrich the book to further explore the interaction effects of public policies with the low cost of high-level labour as well as the entrepreneurial spirit, just as it does with other characteristics such as the high flexibility, adaptability and inclusiveness of Chinese markets. For example, governments have played an important role in making the market able to tolerate failures in the trials of electric cars.

The book also assumes that government organisations and state-owned enterprises need to be changed to facilitate the formation of a competitive and open system. However, MNCs and local private companies enjoy special policies from the Chinese government for certain time periods. This poses the question of what 'fairness' really means for

such a system. To have one type of entity enjoy the same policies as another type is one way of understanding fairness. Alternatively, companies with special characteristics can enjoy policies specific to their features and needs so that they can compete with other companies of similar capabilities at the same level.

State-owned enterprises are criticised for their lower productivity. However, using productivity or innovation outputs to compare the performance of state-owned enterprises with that of other types of companies may be slightly inappropriate. Some innovation and improvement in productivity may need more time and investment both in capital and labour, while the know-how produced during this process can be easily transferred to other companies within a short time. As a result, it may be observed that other companies have better productivity and innovation performance. Therefore, when evaluating the benefits and costs of companies such as state-owned enterprises, it is necessary to include the spillover effects.

In all, built on vast and detailed interviews, news reports and existing literature, *China's Next Strategic Advantage* highlights the success of China's innovative strategies and practices and reveals the keys to the successes of various types. The authors argue that there is much for MNCs to learn from China and there is an urgent need for them to do so. Readers of various backgrounds may find this book useful. Practitioners – both company managers and employees – may benefit from guidelines for strategies towards innovation complemented by the vast cases and mini-examples. Researchers may gain insights and be inspired by the data for their own research. The book is also valuable to policymakers at different levels, who can learn a great deal of what is needed from the demand side.

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Note: This review gives the views of the author, and not the position of the LSE Review of Books blog, or of the London School of Economics.

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