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China's Innovation Driven Economy



PACIFIC TYCOON

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For an economy to grow and mature, recent economic history suggests countries must move production into high tech industries which yield greater added value. Such a move supports long term economic growth and allows the country to compete on a global scale.

As China continues to develop, the government is taking proactive steps to ensure that it will compete not simply on price but also through innovation in order to meet the current and future demands of the global economy. The country has rapidly increased the amount of money being directed towards research and development (R&D), whilst university education is being utilised to meet tomorrow's skills requirements. Although China formerly produced goods for companies originating from abroad – the country is now very much leading the way.

Innovation in China

In May this year, Joe Biden, Vice President of the USA, made the brash declaration that China does not innovate. However, the commitment to funding innovation and R&D from the Chinese government and its businesses suggest this view is considerably outdated. In 2012, China spent \$296.8 billion on R&D, second to only the USA and almost twice as much as Japan which spent the third highest amount (\$160 billion).

Furthermore, China is rapidly closing the gap in spending with the USA and is in fact predicted to surpass American expenditure by 2022. This is being driven by Chinese firms which are increasing R&D budgets by up to 20% per annum. Comparatively, expenditure in the US is increasing by only 1 - 4%. Of all new global R&D spending, 43% is estimated to be accounted for by China.

In addition to funding, a skilled labour force is required to maximise the potential gains from the transition to becoming an innovation-driven economy. In 2000, China had 1 million new university graduates. By 2013, this had risen to 7 million which included 900,000 engineering students. In comparison, the USA produces just 80,000 engineering graduates per year.

China is cultivating the infrastructure needed to harbour innovation which will allow it to develop advanced technology-based products and move beyond its established position as a location for low-cost manufacturing.

Corporate Innovation

The drive for innovation is present across a number of industries, all of which are looking to gain advantage over their global competitors. Furthermore, many different multinational corporations (MNCs) have invested into the revolution taking place in the Dragon Economy. China now hosts 1,600 R&D centres of which 1,300 belong to MNCs, is home to some of the most innovative companies in the world and is at the cusp of progress in mobile technology, biotech, medical devices and renewable energy.

Examples of MNCs which are benefitting from the potential to innovate in China include Coca Cola and their rivals Pepsi Co. Both drinks manufacturers are looking to develop products in their Chinese research centres to target Asian and global markets. BASF, a leading chemical company and IBM, the global technology firm, are further examples of MNCs setting up extensive R&D operations in China.

A number of Chinese companies are also flourishing in this innovation inducing environment. The start-up, Nanoleaf, has invented a new light bulb which saves 88% of energy and lasts 20 times longer than existing commercial LED bulbs. Furthermore, the biotech firm, Beijing Genomics Institute (BGI) is now the world leader in DNA sequencing. This process is expected to be hugely significant to the fields of cancer treatment, forensics and research into biological evolution and related fields.

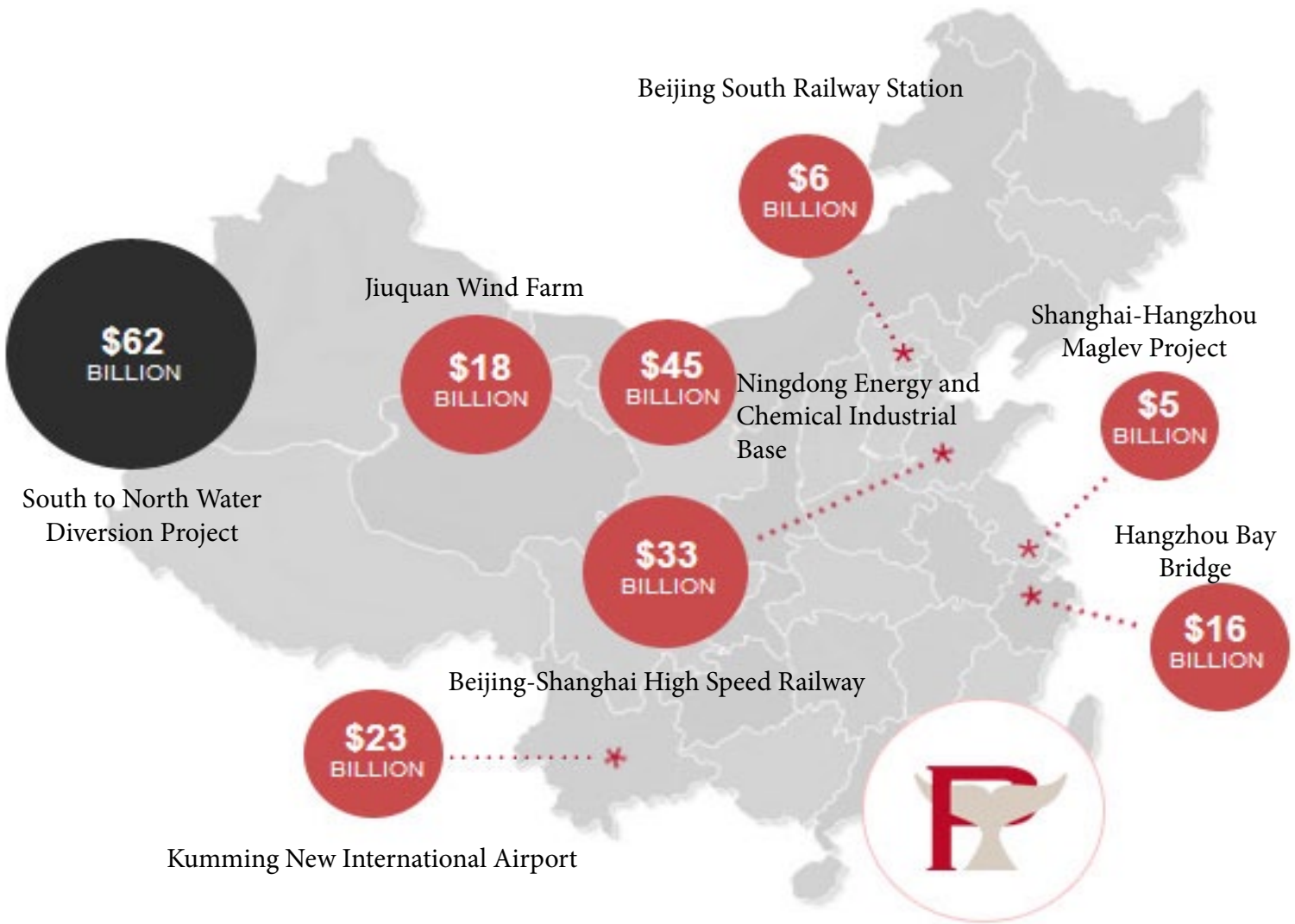
As further funds are diverted into R&D and innovation, the environment being created will ensure that Chinese firms and MNCs with operations in the country will continue to lead the way.

Conclusion

The Chinese government has prioritised economic growth with a focus on increasing spending on R&D and ensuring the skill set of the labour force will meet the requirements of an innovation-based economy. This move towards high tech industries will help to support future economic growth and development in the Dragon Economy.

Whilst further progress is still required, China is on course to become the global centre for R&D, fortifying its position and status as an economic superpower. The success of this policy is boosting investment into the country and will encourage production and manufacturing of these high tech products. The outcome will be a rise in trade and further economic growth. For China, the policy of innovation is leading the country down the road of success.

Pacific Tycoon's head office is based in Hong Kong, at the heart of the booming East Asian economy. Benefiting from our proximity to the industrial and business-led projects transforming China, we endeavour to monitor and understand each one closely. For further details on the trillion dollar projects shown on this map, visit our website: www.pacifictycoon.com



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