



EIN Roundtable Seminar

EU-China Relations

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***“China’s New Value Chains
Opportunities and Challenges for Europe”***



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China's New Value Chains

Opportunities and Challenges for Europe

China-EU Relations: A Roundtable Seminar
European Ideas Network & Centre for European Studies
European Parliament, 19th February 2009

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Overview



- ◆ Background to Ongoing Research Projects
- ◆ Innovation in a Chinese Context
- ◆ Implications & Opportunities for the EU
- ◆ Conclusions and Questions

An Ongoing Research Project

- ◆ China moving up the industry value chain
 - Globalisation's next stage: but what does this actually *mean*?
- ◆ Role of Europe's enterprises in this acceleration of innovative growth.
- ◆ Extent of *both* commercial synergies *and* competitive challenges from China.
- ◆ Links with my own professional background:
 - Associate of Centre of International Studies, Cambridge University
 - Consultant based at St John's Innovation Centre, Cambridge
 - Research project with Centre for European Studies, Brussels

Innovation in a Chinese Context

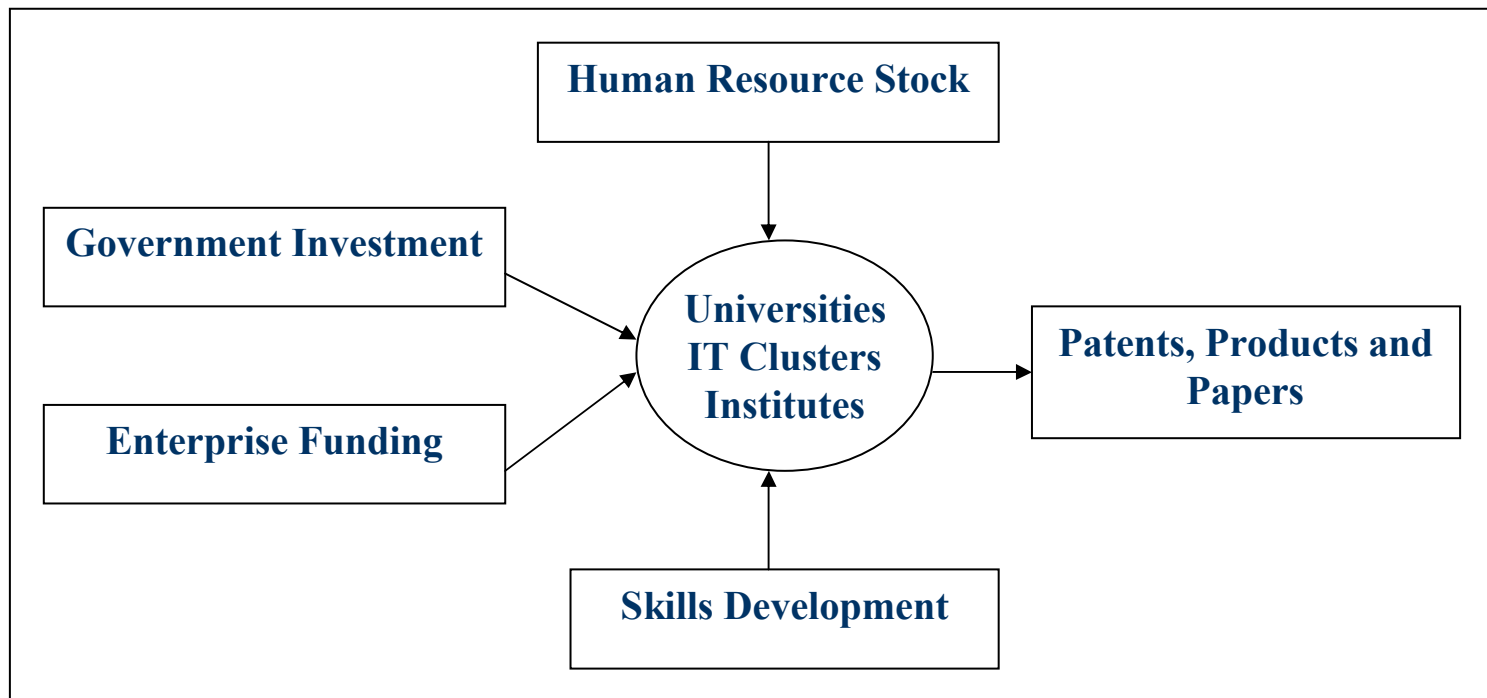
- ◆ Innovation strategy and the economic crisis.
- ◆ What actually is “innovation”?
 - “the creation, transmission and diffusion of *new* knowledge...with the potential to generate *commercially sustainable* competitive advantage for an economy”. (Arundel, 2008:37)
- ◆ Innovation’s salience as a policy issue:
 - “of fundamental importance in overcoming the financial crisis...no economic recovery is possible without technological innovation”.
 - Premier Wen Jiabao’s speech at Cambridge University, 2nd Feb 2009.

China's Innovation Trends

- ◆ Key new stage in economic development.
- ◆ National Policy: S&T Strategy Plan 2006-20
 - *Build* innovative capability & transform China's growth pattern: in science; in services; in assimilation.
 - *Reduce* foreign affiliate dominance in ICT sectors.
 - *Increase* technological support for domestic SMEs.
 - *Promote* rapid development of modern service industries.
- ◆ Compare overlaps with Europe's drivers

China's Innovation System

◆ Overview of National Innovation Activity Flows



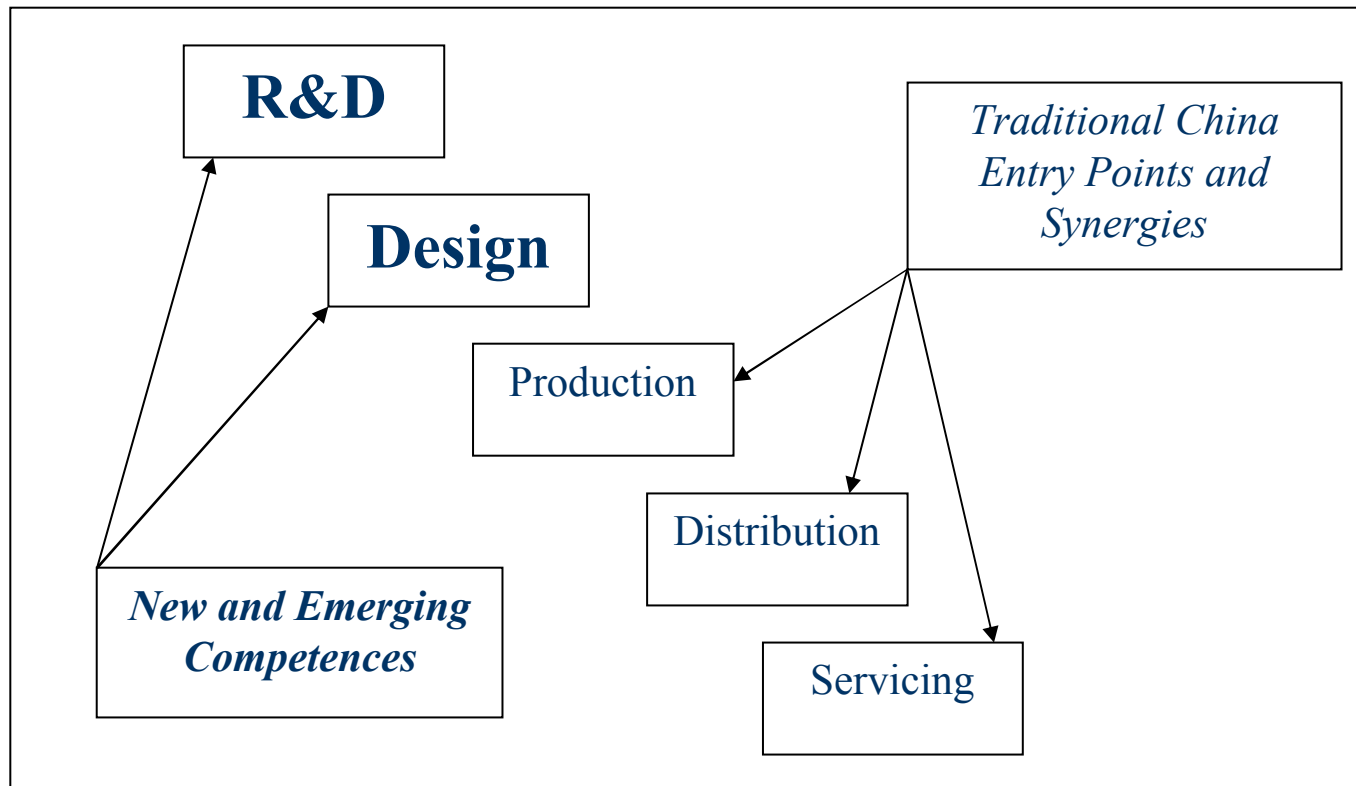
Sources: Adapted from text in Zhang Jing (2007), "The Dynamics of China's National Innovation System".
Further assessments and design layout from Irwin Crookes (2009), "Maintaining Europe's Innovative Advantage".

Innovation Case Study: OECD

- ◆ OECD China Innovation Review: 2008
 - China R&D Spending annual increase 1995-2005: 19%
 - Amount of China R&D Spending 2006: US\$86 billion (PPP)
 - China R&D / GDP Ratio 2006: 1.34% (EU-27: 1.76%)
 - Limited basic research BUT marked *product & services* development.
- ◆ Weaknesses still persist in government framework
 - Weak value added even in ICT
 - Educational shortcomings in soft skills
 - Funding constraints and administrative complexities
 - Effective IP enforcement remains a concern.

China's Changing Value Chain

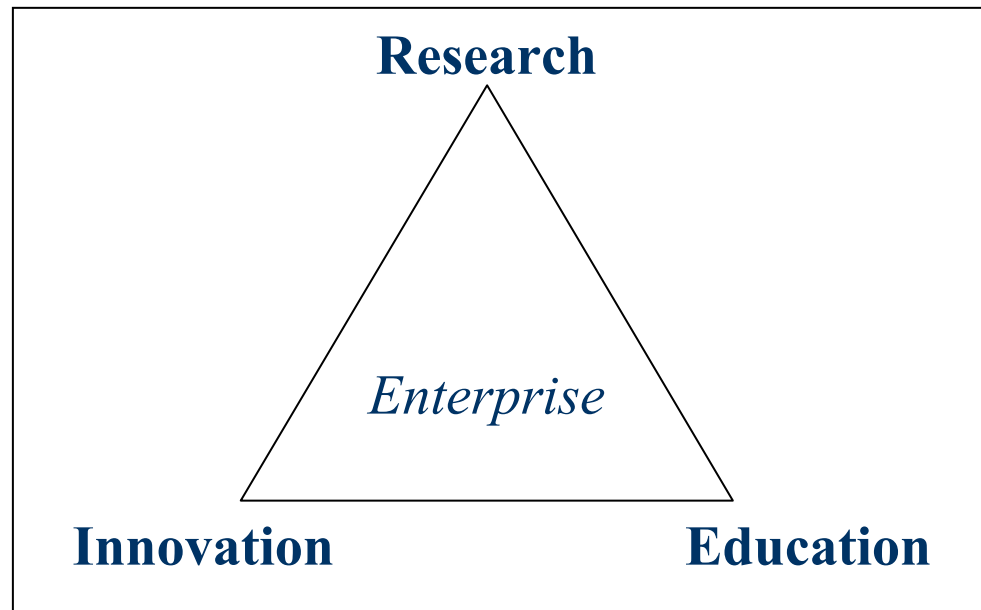
- ◆ Traditional and Emerging Entry Points:



Source: Adapted from University of Cambridge IfM 2008, "Understanding China's Manufacturing Value Chain".

Europe's Innovation Pathway

- ◆ Exploiting the “Knowledge Triangle”.



Source: Adapted from European Commission 2006, "EIT: A New Model for the Knowledge Triangle".

Opportunities for Europe

- ◆ Recognising Europe's Inventive Strengths
- ◆ Collaboration and complementarities
 - Focus on current Chinese weaknesses and help them.
 - A *mindset* for partnership: “not just about cheap shirts”.
- ◆ Three areas in particular for engagement:
 - Education & Skills in Problem-Solving.
 - Research & Development in IT and Pharma.
 - Software localisation and design services.

European Education & Skills

- ◆ Compelling Educational Services for China in Europe
 - Provide soft skills in problem solving, management sciences and innovative research capabilities.
 - Over 45,000 Chinese students enjoying university education in UK.
 - Many postgraduate: by no means all sciences. Cambridge has >700.
 - Circa 120,000 across the EU: need to expand and deepen links.
 - National policies and researcher's free-movement need coordination.
- ◆ Exporting Education Services: Nottingham's Ningbo Campus.
- ◆ European Institute of Innovation and Technology in Budapest an excellent platform for skills partnerships
- ◆ EU Erasmus Mundus study scholarships for joint programmes: e.g. 244 Chinese selected in 2008/09 (>50% of all students).

Europe's R&D in ICT & Pharma

- ◆ ICT strategies part of the *global* value chain.
 - ◆ Knowledge spillovers develop *local* talent.
 - ◆ Entrepreneurial flair from Chinese diaspora returnees.
 - ◆ There are strong potential *competitors* as well as partners.
- ◆ Synergies in Chinese R&D: not just costs.
 - ◆ America's Microsoft's R&D "Centre of Excellence" in Beijing.
 - ◆ BT & Symbian / Nokia: Both have Beijing R&D centres.
 - ◆ GSK & Bayer AG both plan to open China R&D centres.
- ◆ Opportunities in Telecom
 - ◆ 3G Licenses issued: equipment contracts and telecom software
 - ◆ Even more interesting: Chinese need effective *business models*.

Software Design and Services

- ◆ Evidence of growing capability: SOA, SaaS.
- ◆ Not just program coding:
 - Design and localisation for Chinese market entry seen as real option for EU software SME's in *business* software sector.
 - Coupled with growing demand from Chinese enterprise sector wanting better financial control, better HR management and improved customer relationships.
- ◆ New names in global software?
 - Less mature than India but it is consolidating: many have US offices.
 - Neusoft, Kingdee, UFIDA, HiSoft, iSoftStone, VanceInfo.

A Framework for Success

◆ On *European* side:

- ◆ Look outward for opportunities: not introspective: recall Lisbon failings.
- ◆ Need to appreciate partnership of equals with complementary competences between China and EU.
- ◆ Recognise improvements in China's IP landscape are real and put into context developing country character of some provinces.

◆ On *Chinese* side:

- ◆ Encourage and build on growing trust in partnerships and forge a balance between *guanxi* and contract relations: with both firms and individuals.
- ◆ Enhance access to funds and reduce paperwork complexity for China's SME community and promote further synergies with EU SMEs.
- ◆ Recognise singular salience attached to IP regulations by EU as part of partnership building: IP protection important to Europeans *and* Chinese.

Conclusions & Next Steps

- ◆ Europe's talent has much to offer Chinese firms.
 - Entrepreneurial and management skills
 - Trusted business models for new technologies
 - Complementary products and services for China's growing SMEs
- ◆ China's competences complement Europe's needs
 - Competitive *commercialisation* abilities from pure science R&D
 - Localisation and design skills in *collaboration* with EU firms
 - Chinese business *consumption* still set to grow even in 2009
- ◆ Avoid complacency: Europe faces both opportunities *and* challenges. *Globalisation 2.0*

Selected Useful References

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