

INNOVATION AND LEGAL FRAMEWORKS NEEDED

CAN CHINA ESCAPE MIDDLE-INCOME TRAP?

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◎ The explosive growth of China over the last three decades has created a middle-income country. However, China did not manage to sustain its previous growth rate in recent years and its government now faces the daunting task of avoiding the middle-income trap: How to remain competitive with higher labour costs.

During a panel discussion, four experts discussed this complex situation: Lukas Züst, Counsel & Head of China Desk at Vischer AG, Elisabeth Tester, Co-Founder ChinaIntelligence, Janwillem Acket, Chief Economist at Julius Bär and Prof. Michael Jeive, Head of the FHNW Swiss SME Research Centre China.

According to Acket, China has reached a crucial period in its economic development. Last year's growth rate of 6.7% was the slowest pace in more than a quarter century, confirming multiple years of slowdown that impairs its economic transformation. Stuck at the middle-income level, the world's second largest economy is unable to break through.

"China has entered the first stage out of poverty and the big challenge is, how can it go from its current stage into the next higher level," Acket said.

He denoted China's middle-income trap as a dilemma because of its sandwich-position. Due to the exhaustion of cheap labour, China struggles to maintain international competitiveness with low-cost countries. Besides, there is an intense high-tech competition with developed nations, according to Acket.



Elisabeth Tester, Co-Founder ChinaIntelligence, emphasised the importance of innovation to escape the middle-income trap. Photo: VI



The panel discussion – from left to right: Michael Jeive, Lukas Züst, Elisabeth Tester, Janwillem Acket. Photo: CK

Meanwhile, the government recognises innovation as the key driving force for China's further development and placed significant emphasis on science and technology in its 13th five-year plan. "If you look at the five-year plan, there is a clear focus to go away from heavy industries that actually brought China at the forefront, as the largest manufacturer of the world," Acket noted. In order to overcome the hurdles of the middle-income trap, Tester confirmed the importance of creating an economy based on innovation and technology. "There is one word that characterises the whole discussion and this word is innovation," Tester said.

GOVERNANCE OF INNOVATION

A critical barrier that China must face before entering the spectrum of technologies is its own governance of innovation. According to Züst, the government identified the areas for improvement and is doing its utmost to strengthen innovation, yet they still want to maintain control and restrict with it the freedom of research. "That is the kind of contradiction that the current system still has," Züst concluded. "If a government wants to be involved everywhere, it is not very motivating for researchers," Acket added. "It is going to be crucial for China's development process into the final stage, that the government allows free zones for research and development." Furthermore the government is required to develop a legal environment that paves the way for innovation, in particular a functioning intellectual property protection system, according to Züst.

The shift from resource-driven growth to innovation-based growth is undoubtedly a huge challenge for China. However, the panellists are confident that China will move up the income ladder. The government understands what is required to foster innovation and if it also manages to cope with legal certainty, Züst believes, China will not be caught in the middle-income trap. ● VI