

Chapter 1

Innovation Nation

The interview with the reporters from Liaoning province had been an easy one, Fang Shimin considered; a simple case of fraud. He had exposed the self-anointed Taoist “Supreme Master” Li Yi as a fake. Li and his 30,000 adherents had claimed throughout 2010 that he could sit underwater for two hours while holding his breath in a lotus position and could withstand 220 volts shot throughout his body, as well as other impossible feats. Fang simply laid the facts out before the reporters: Li had practiced the underwater stunt in front of cameras in Chongqing ten years before while encased in glass, insulated from the water; and there was no objective evidence of Li ever surviving electrification.¹

Fang stepped out of the hotel onto the wide Beijing sidewalk into a hot, mid-afternoon August day filled with the cacophony of traffic noise, blaring horns, pedestrians talking on their cell phones, and street vendors hawking fruit, vegetables, sunglasses, hair clips, and the like. Sometimes he missed the blandness and isolation of his life back

in California, when he simply went to his biochemistry lab at the Salk Institute, put in long but fruitful hours, and then went home. When royalties from patents began to flow in, he decided to return to China to pursue work that would benefit his society, making it a better place for the country's countless millions who had not been as fortunate as he. Applying the scientific method used in Western institutions and combining it with his hatred of bullies and fraudsters, he took on the mantle of China's "Science Cop." His pen name was Fang Zhouzi, a name millions came to know throughout China for his forthright approach to the lies and inequalities that permeated his beloved country.

Nearly home, he grew excited at the thought of the evening ahead, filled with further research into the medical fraudster Xiao Chuanguo. Xiao Chuanguo claimed that he cured the urinary incontinence of many children by operating on certain nerves.² Fang Shimin was sure Xiao had falsified the data. To Fang Shimin, Xiao Chuanguo was a public menace.

He turned down a side street. The neighborhood was quieter now, and he felt more relaxed. As he rounded the corner a big man stepped in his way. Fang Shimin saw a shadow, a blur, and then a bottle held up to his face. His friend Fang Xuancheng had been attacked on the street just two months before in just such a manner. Fang Xuancheng had been badly beaten and hospitalized. Fang Xuancheng was a correspondent for *Caijing*, a Chinese financial journal that took controversial stances against companies and institutions in China. This was no time to wonder if this was a similar sort of attack, though.

Fang Shimin ducked, instinctively. Still, part of his face was caught in the mist of pepper spray. His cheek stung, then numbed. He blindly sprinted into the street to escape the assault. Fang Shimin heard an iron bar clamber to the ground, and two men cursing behind him. "Goddamn it, Xu! You sprayed me in the face instead! You turtle's egg!" one of them shouted.

"Shut up!" Fang Shimin heard a second voice shout, "Catch him!"

"Your mother and father! I can't f—king see!" Xu screamed.

Xu leaped over his comrade, who lay crumpled on the sidewalk, and dashed into the street after Fang Shimin. He pounded the air with the hammer in his hand to know its heft, to feel how hard he would have to wield it to crack Fang Shimin's skull.

Fang Shimin knew if he hesitated for even a second the thug would kill him. He laced his way through traffic and was nearly run over twice by irate drivers who honked their horns at him. Meanwhile, the assassin had closed the distance between them. As Fang Shimin changed direction once more, he saw out of the corner of his eye his assailant lobbing something long and heavy at him. Again Fang Shimin's instincts took hold and he ducked his wiry frame to protect his head. When he looked up he saw a hammer coming at him. He ran faster. A moment later he felt a stab of pain in one of his shoulder blades. Fang Shimin dared not slow his pace. He rounded the next corner and sprinted through the gate of his apartment complex.

Xu stopped his pursuit a hundred meters before the gate of Fang Shimin's residence. He glared at the guards gaping at him. After a time, he realized others were staring at him, too. He had failed. He would have to return the ¥50,000 yuan³ (\$7,000) advance to Big Brother Dai. Dai Jianxiang had trusted Xu and Long Guangxing to teach that turtle's egg a lesson. Xu cursed again and then set off to bring back Long. It was turning out to be a very bad day.

Actually, it turned out to be a bad week for "brothers" Dai Jianxiang, Xu, and Long Guangxing. Days later police picked up Xu, who had been recorded on closed-circuit television cameras stalking Fang just before the incident. Xu led the authorities to Long Guangxing and both confessed that they had been paid to teach Fang Shimin a lesson by Dai Jianxiang. With little pressure applied, Dai Jianxiang admitted Dr. Xiao Chuanguo—Fang's arch enemy—had paid Dai Jianxiang, a distant cousin of Xiao Chuanguo's, ¥100,000 to make all the arrangements. So informed, the Police picked up Xiao Chuanguo at the Beijing airport after he had just returned from a trip abroad.⁴ Xiao Chuanguo confessed to the crime within hours of incarceration. He also confessed to having arranged for the attack on Fang Xuancheng, the financial news reporter at *Caijing*. Both Fang Xuancheng's media assault on Xiao Chuanguo's background, credibility, and research work had caused the Chinese Academy of Sciences to deny his application. Years of Xiao Chuanguo's work was held in ill-repute in China, though Western scientists found some of his research promising. His endless defamation suits against Fang Shimin had only brought more attention to him, instead of absolving him.

Dr. Xiao Chuanguo pleaded not guilty, despite having already confessed his crime to the police. The court passed judgment down in less than a day, without Fang Shimin, Fang Xuancheng, and their lawyers present in the court room. The court found Dr. Xiao merely guilty of creating a public nuisance. The triumvirate of judges fined Xiao Chuanguo several thousand dollars and sentenced him to five and a half months in prison. Immediately both Fangs and their attorneys accused the court of backroom dealings that denied them justice. They filed an appeal to a higher court, the outcome of which would take years to finalize.⁵ The case, however, did not deter the Science Cop from his mission to continue uncovering fakery in the fields of science and technology.

Impure Research

Fake permeates Chinese society. For many without the connections or money, making up one's past is the only way to achieve the social and economic status one seeks. The walls of alleyways in some cities are littered with the phone numbers of agents who can get you a technical certificate or university diploma, or even PhD. In August 2010 authorities discovered that several dozen pilots had faked their flying histories. It took a plane crash in northeast China and the death of 42 passengers to begin an investigation into the mass deception.⁶

In 2010, Science Cop Fang Shimin revealed that the former head of Microsoft China, Tang Jun, had falsified his resume. He had presented to his employers that he had received his doctorate from the California Institute of Technology. The deception had facilitated his rise to become a millionaire and a sort of modern-day Chinese folk hero, who with grit and determination had overcome adversity.⁷

Zhang Ming, a professor of international relations at Renmin University in Beijing admitted that a great many Chinese academics prefer to serve a more economically practical cause than seeking the truth through research. "We need to focus on seeking truth, not serving the agenda of some bureaucrat or satisfying the desire for personal profit," he said.⁸ However, the plea fell on the deaf ears of 55 percent of his colleagues surveyed by the China Association for Science and

Technology, who claimed to know someone who had falsified research findings or plagiarized papers for publication. Six of the country's top research institutions admitted in a government report that they had falsified data or copied research results from other researchers. In December of 2009 a British scientific journal had to withdraw more than 70 papers after editors discovered findings of questionable veracity.⁹ A bit of software called CrossCheck, which checks for plagiarism, flagged nearly a third of the papers submitted for testing as highly suspicious. In some instances, the software found 80 percent of some papers had been copied from elsewhere.¹⁰

The sort of veracity and transparency Western scientific research institutions take to with religious zeal is far from affecting the agendas of the political leaders who have been appointed to manage Chinese research organizations. The Communist Party appointees who direct daily affairs at the departments dole out budgets, housing, and reputations. Nepotism is rife. *The Party ultimately defines the meanings of discovery and invention in China.*

The Patronage Party

The public accusations against Dr. Xiao Chuanguo, his confessed attacks on his accusers, and the court's light sentences for his crimes point to a fundamental flaw in China's plan to surpass the United States as a preeminent innovation nation. The country lacks checks and balances within its own scientific community and society. Science prides itself on its scientific method of repeatable results rigorously tested and approved by a group of peers. As Thomas Kuhn wrote in his seminal study of the work of scientists, *The Structure of Scientific Revolutions*, most often discoveries are resisted by peers who have vested interests, yet eventually the community of scientists adapts—typically in nonviolent ways—as the discovery becomes a fact that expands on previous understanding. The scientific method is supposed to weed out wrong or misleading results and researchers contribute to a base of standing knowledge upon which others may continue to build. The court systems in a civil society function similarly, with judgments passed based on a body of evidence that is indisputable in its

objectivity and certainty. Both science and society in China are based on patronage, though.

Patrons are typically political appointees with ties to the Chinese Communist Party (CCP), who are made department heads, school directors, and research presidents. Often, political appointees have little or no experience in the fields they are charged to manage. Subsequently, patrons themselves dole out positions of responsibility to scientists, funding for projects, even living quarters for the families of researchers. Consequently, researchers learn not to “bite the hand that feeds” if one wants to advance his or her career.

Judges on the bench are also political appointees with little training or experience in the complexities of litigation and judgment. As a Beijing lawyer once told me, she practiced “fake law.” For most cases, she told me, she was expected to take the judges out to dinner and treat them well. Sometimes she would have to play drinking games with a judge to decide the outcome of a case.

In other words, the two most important systems supporting innovation in a society are woefully skewed to meeting the demands and vanity of CCP sponsorship. Ultimately, Chinese business and industry is beholden to the same kind of patronage; and the larger the enterprise and more closely aligned with national industrial policy, the fewer degrees of freedom of research and development (R&D) interests and commercial viability the entity has—the State directs the former and decides the latter, as Richard McGregor so engagingly wrote in his penetrating expose *The Party: The Secret World of China's Communist Rulers*. Yigong Shi and Yi Rao, deans of Life Sciences at Tsinghua and Peking Universities respectively, noted in an editorial in *Science Magazine*, “it is an open secret that doing good research is not as important as schmoozing with powerful bureaucrats and their favorite experts. China's current research culture . . . wastes resources, corrupts the spirit, and stymies innovation.”¹¹

The network of patronage that laces China's R&D efforts affects the objectivity, quality, and veracity of efforts to push back the frontiers of science and to address some of the most profound challenges humankind has ever faced. Issues such as meeting burgeoning energy requirements; growing pollution hazards to the earth's ecosystem; and consumption of nonrenewable resources such as land and water require

a clear-eyed, apoliticized approach that will ensure the habitability of the country. Britain's National Endowment for Science, Technology and the Arts offered that China's economic rise and new-found geopolitical heft make the country hugely important in working with other countries to resolve such sustainability issues.¹²

Chinese patronage also affects the efforts of organizations that are attempting to blaze trails beyond a stultifying domestic environment into a world bristling with ideas and applications. Fields such as services outsourcing and Internet applications risk being smothered for fear that devolution of creative energy destabilizes the country. The gravity well of patronage also pulls on and warps genuine efforts of Chinese companies to become innovative global players that can go toe-to-toe against titans such as IBM, General Electric, Procter & Gamble, and others. Whatever plans the country has to become a global innovation powerhouse, it first has to surmount huge, self-inflicted challenges. Some of the challenges are based in historic patterns that have become habits of thinking and actions that run counter to international norms of transparency and reportage, and to the scientific method itself. Other hurdles the nation needs to overcome are socio-political. The leadership will need to learn how to balance the will to survive, and maintain control over the society and economy, with the very real expediencies of creating safe environments in which creativity, enquiry, and impassioned dialog can ensue. With so many conflicts of interest throughout China's government, educational, and research institutions, it is little wonder that so much of the country's innovation should be constrained to the inconsequential.

Gimme a Big "I"!

In November 2010 the State Intellectual Property Office of China published its *National Patent Development Strategy*, which outlined the country's plans for innovation ascendance. China planned to register patents at a rate of two million per year by 2015. In 2009 Chinese would-be inventors filed 600,000 patents with its patent office. By September 2010 Americans had filed 480,000 patents in the United

States patent office. China also planned to double the number of patent examiners by 2015, to 9,000. The United States in 2010 had 6,300 inspectors.¹³ China was able to accelerate the manufacture of patents at such an astounding rate because of its growing R&D budget in relation to its Gross Domestic Product (GDP).

China's R&D expenditure increased to 1.5 percent of GDP in 2010 from about 1 percent in 2002. The government aimed in 2010 to have its R&D budget at 2.5 percent of its GDP by 2020. Its share of the world's total R&D expenditure was a little more than 12 percent in 2010, while the United States' contribution was around 35 percent.¹⁴

Some of the other metrics the original strategy cites include, "The quantity of patents for inventions [made in China] for every one million citizens and the quantity of patent applications in foreign countries will quadruple." And, "The proportion of patent applications in industrial enterprises above [a] designated size will reach 10%." The paper, though, does not designate the size of said enterprises. However, the plan does include designating 10 "model cities" that will be patent examination hubs.

A closer look at the kinds of patents China is encouraging reveals a skew in the numbers. The patent goals breakdown into 1 million patents for each of China's patent types: utility-model patents and invention patents. Utility-model patents are incremental improvements or lateral changes to products and invention patents are true patents for new inventions.

Most of the patent applications were expected at the time to be in what the central government called "pillar" industries, areas the government considered of vital interest to the country's economy and social stability. These industries included solar and wind energy, information technology and telecommunications, and battery and manufacturing technologies for automobiles, according to David J. Kappos, director of the United States Patent and Trademark Office (USPTO).¹⁵ John Kao, an innovation consultant, described the central government plan as "a brute-force approach at this stage, emphasizing the quantity of innovation assets more than the quality."¹⁶

Research by Anil Gupta and Haiyan Wang into the complexion of Chinese patents revealed Chinese institutions were nowhere near

as creative as they would have the world believe. Based on more than 95 percent of the patents filed with China's own patent office, Gupta and Wang found that the vast majority of these patents are "tweaks" to current developments. A more telling number of Chinese patents filed with three of the world's leading patent offices in the United States, Japan, and the European Union revealed a different story. The "triadic" international patent standard involves approval by each of these patent offices. In 2008, the Organization for Economic Cooperation and Development (OECD) cited only 473 triadic patent filings from China versus 14,399 from the United States, 14,525 from Europe, and 13,446 from Japan.¹⁷ The Chinese were actually far behind other countries in meeting international standards for invention patents. The statistics did not dissuade China's leadership from centrally planning innovation, however.

China, in its efforts to become the "workshop" of the world, has never let the emphasis on quantity ahead of quality deter its efforts. In late 2010, Wang Yong, chairman of the state-owned Assets Supervision and Administration Commission of the State Council (SASAC), announced the Council would develop 50 state-owned enterprises (SOEs) to become top-ranking global companies before 2015. The key to moving into this top tier entailed upgrading their innovative capacities to meet international competition head-on.¹⁸ The move came as regulators called for the upgrading of innovative capacities to strengthen the international competitiveness of the SOEs. Thirty-five of the companies had already pledged before the announcement to develop into global industrial giants possessing advanced technology in line with international standards.

The technocrats who run the Chinese Communist Party (CCP) seem to believe that innovation can be constructed in much the same way as a bridge or a dam or a highway. The approach runs in the same vein as the way in which the leadership has carved up its ecology in favor of economic growth over environmental sustainability. China's leadership anoints cities throughout the country as being innovation centers of services outsourcing, animation, information technology research, aviation, and so forth. Entire cities in the country also have the unfortunate reputation as centers of counterfeiting products, designs, and innovations.

What's a Little Intellectual Property Theft between Friends?

If there is any aspect of “Brand China” that is well-known to foreigners, it is the extent to which Chinese businesses play fast and loose with the intellectual property of original inventors and artists. Chinese counterfeiting of American products alone cost American businesses at least \$60 billion.¹⁹

Chinese merchants have considered everything from consumer products, industrial equipment, vehicles, music, movies, and art as fair game in the hunt for profits. A walk through nearly any emporium in any Chinese city will leave visitors breathless from the extent of copied products for sale at steep discounts. Many of these malls—indoor and outdoor—have booths or small alcoves where energetic sales staff call out to passersby to entice them to browse what's on sale. In the summer, indoor corridors are not air-conditioned, leaving visitors gasping for breath and relief from the incessant heat and din. In the winter, the corridors are often freezing cold. The only real protection the display tables have from the rain at outdoor emporia are tarpaulins drawn down with clothes line.

The markets sell all manner of brands, typically within a single industry, such as textiles, shoes, or lady's bags. One visit to the Hongqiao Pearl Market in Shanghai revealed warrens chock full of Louis Vuitton hands bags, Tommy Hilfiger shirts, and Gucci shoes. In some instances—such as the alligator shirt a German tourist may be fingering—the merchandise is actually a genuine article that has “fallen off the truck during shipping” and made its way to the fake market. The item was actually commissioned by a brand-name company to be manufactured in China. Factory owners make a few extra sets of the product, matching the same specifications the factory's corporate buyer had laid down for operators. Employees ship the extra sets out of the factory to middlemen to find retail shelf space in some emporium, where they'll be sold for 20 to 50 percent of the original retail price.

The phenomenon reaches into industrial components and equipment. One Danish manufacturer of parts for heating, ventilation and air conditioning (HVAC) systems took a phone call while we were having lunch near his factory in the Yangtze River Delta. It was a Western customer. The conversation was about how the customer could be a great

help to my friend by visiting a competing Chinese HVAC-parts manufacturer, taking photos of the knock-off parts to pass on to my friend. Then, my friend would have his lawyer in China send the offending party a warning letter about the course my friend's company would be taking if the Chinese maker continued to copy my friend's HVAC parts.

I myself have visited Chinese manufacturers with my own Western clients to have my customers whisper to me, "Those are our products in their display case!" Either the manufacturer was nonchalant about the rip-off, and felt safe enough that they did not have to protect themselves, or they had simply forgotten they had copied a potential foreigner partner's part and left it in the display case for all to see. Entire cities in China are devoted to copying products from abroad and selling them to gray markets or even exporting them to developing countries as originals. Putian, in Fujian province, on the coast across from Taiwan, is well-known as a knock-off capital for sneakers. Dongguan, in Guangdong province, is famous for knock-offs of shoes, golf clubs, furniture, you name it (and your price).

The culture of IPR infringement, mass copying, and outright fakery has its roots in China's history and has carried forward into the 21st century through the trunk and branches of its education system. The copy culture has such a strong hold on China's modernizing society that its grip sometimes makes for actual casualties.

Education

Jo Jo (a pseudonym) was 11-years old when he took his own life. His mother discovered him at their home, just after lunchtime one wintery January school day in Yunnan province. The boy had been starving. Teacher Tang, who was close to retirement, had kept Jo Jo after class to copy by hand pages from a Language Training Materials textbook. Old Tang was disciplining the boy, though for what, in the end, no one was quite sure. Jo Jo had had to copy in his neatest handwriting four chapters from the textbook, a total of seven densely-filled pages of Chinese characters. Jo Jo complained to his mother he was sure he wouldn't be able to finish the assignment by the end of the day. She assured him he would be able to, as he was a clever boy, and served him a bowl of

sweet, glutinous rice balls filled with black sesame paste—a favorite of Chinese children. She returned to work, and assured him she would call to remind him he had to go back to school an hour before his scheduled return. Later, when she called, no one answered the phone. As only a parent's intuition would have it, she returned home, concerned something might be the matter.

Jo Jo had hung himself with his Red Pioneer's scarf tied to the door knob. He sat listless on the floor when his mother discovered him, the scarf still strangling what life may have remained in the limp body. The little red scarf, worn by hundreds of millions of children in classrooms during the school year, is the symbol of the sacrifice every citizen of the country must make to promote the welfare of the People. In this case, Jo Jo's sacrifice presented to the society the rigidity, insularity, and soul-crushing weight of its conformist approach to education and socialization. His mother stated her son was ashamed he would not be able to finish the copying exercise by the end of the day, and was not up to facing further punishment. Teacher Tang checked himself into a hospital and made himself unavailable for comment on the matter. By his and the school's reckoning, Jo Jo had stayed after class for some extra help on his schoolwork, but Chinese parents and students know the system works otherwise. The system will survive such sacrifices as little Jo Jo's, however.

Chen Zhiwu, a finance professor at Yale University, tweeted in response to an online public discussion in China about why China could not produce a Steve Jobs. Chen felt that in Chinese schools, "the first thing the teachers do is to rub down the edges of those students who are different from the crowd."²⁰

The modern Chinese education system has its roots in the sort of study required to pass the imperial examination for entry into China's government. During the Sui Dynasty in 605 AD the country found itself with too many people and too few routes to prosperity. Nepotism for plum government positions was rife. The emperor commanded administrators to build a meritocratic bureaucracy. They developed a rigid examination system that would filter the best educated for government seats. Passing the imperial system for nearly 1500 years also assured that the backgrounds, thinking, philosophies, and initiative of bureaucrats were near harmonious, no matter where in China they

were from. Since then, the Chinese examinations at all levels of education emphasize regurgitation of memorized treatises over individual displays of creativity, personal insight, and hands-on experience.

China—or rather, specifically, Shanghai—was quite proud when in 2010 its students placed first in the world in scoring on an international math examination, ahead of South Korea, Singapore, and Hong Kong. Finland finished very strongly, with America coming in 25th out of 34 countries. Many infer—including Americans—that the Chinese approach—or, at least, the Shanghai approach—to education is superior to the American system. They further infer that, *ipso facto*, China is able to produce superior engineers and scientists who will file more patents and publish more research papers than the United States. The line of thought concludes that China, then, will be a first-rate innovation nation. Chinese ascribe their success on such examinations, as well as in business, to “Confucian values.”

Confucian theory is basically one of maintaining harmony within a family, a community, and in greater society. A society will remain stable through constant, self-referential study of social and historical phenomena, and by following those in authority. It is, at its most simplistic, a philosophy of follow-the-leader: the wife follows the husband (and the husband’s mother); the husband follows his boss; the boss follows local government officials and so on, all the way to the seat of central authority, in Beijing. A Chinese middle-aged mother of a ten-year-old boy explained to me, “Chinese people at an individual level do not really know what they want. Their entire lives they are told what to think, what to say, what to desire.” The culture of following and copying makes it difficult for multinationals invested in China to find educated and creative professionals with initiative to make breakthroughs in invention. Instead, foreign companies and their local hires find themselves constrained to adapting tried-and-true technologies for the country’s domestic market.

Grafting Innovation

It was during a flight from Shanghai to Chicago that I realized Western-style innovation for China would be a transplant conception,

not something indigenous to Chinese society (despite the Chinese leadership's promotion of its efforts at "indigenous innovation"). I sat next to a charming Chinese engineer who was, for much of the trip, engrossed in an American patent for AC-electric motors. Applications for such motors include the paper industry and the steel industry, in which extremely thin sheets of material need to be manufactured at exacting thicknesses without interruption and at the same rotational speed. Though shy at first about speaking English, the technologist quickly warmed up to chatting with me when I offered her (and her husband) sticks of gum near the end of the long flight.

It turned out she was indeed a rocket scientist, or nearly so; she specialized in the research and design of electric motors that would be efficient and steady. Surnamed Wang, she had been working for an American aerospace manufacturer since 2000. She was the first of the three researchers hired into the Shanghai R&D center years before. The R&D center was the first of its kind for the company in China. She was fairly certain that only IBM, at the time, had already established an R&D center in China.

When we spoke, the engineer's R&D center had thirty researchers. It was one of the few in the world that was at "headquarters level"; that is, most of the R&D done for the company was at the product or department level. The Shanghai R&D center reported directly to HQ in the States for projects for current, high-profile customers.

I noted that it was impressive the American company had established a China R&D center given that China-market conditions and product requirements could be quite different from America's. The engineer responded in PhD-speak (for I think she would have struggled to use English nouns and adjectives of less than three syllables) that most of the R&D work the Shanghai Center was doing was for Western customers, though they were receiving more projects from China-based companies. "I was just in Suzhou at a manufacturer's factory to hear their voice." Suzhou is a manufacturing hub little more than an hour's drive west of Shanghai. What she meant was that they had told her what they needed from the motors she designs.

She noted that the American company was extremely conservative in setting up the R&D center eight years before. Not only in the number of researchers they hired, but also in the size and kind of projects

they gave the Shanghai group. “They watched us very closely,” she said, “to see the kind of work we did, the quality, how we solved the problems . . . At first we had to listen to everything they said. There seemed to be only one way . . . But China is very old, and has some good things to contribute. Now they listen to us to help solve the problems.” I did not mention anything to her about the level of discomfort with intellectual property rights (IPR) issues the company must have initially had; no need in making the kindly and talkative engineer squirm in her too-narrow seat. IPR concerns, however, seemed to deter foreign investors from setting up R&D operations in China.

By 2010 China became host to more than 1,000 foreign-owned R&D centers. Nearly all those centers, however, focused on adapting technologies developed in other countries to local market conditions in China. A culture of copying, weak intellectual property rights (IPR) enforcement and Beijing’s expressed policy of “indigenous innovation” forced foreign multinationals to keep their leading technologies in countries in which they felt their IPR was protected. Anil Gupta and Haiyan Wang identified that half of the top 10 U.S.-based technology giants that received the most patents from the U.S. Patent and Trademark Office (USPTO) between 2006 and 2010 were not doing any significant R&D work in China. During the same years the USPTO did not award a single patent to any China-based units for 5 out of the 10 companies. However, 9 out of 10 centers in India *did* receive patents from the USPTO. *India does not have a policy of indigenous innovation, nor does it force foreign technology companies into joint ventures with domestic companies with the sole aim of transferring technology.* Seven out of 10 of the Indian units of the multinationals received more patents from the USPTO than their Chinese labs, with a tally of 978 versus 164.²¹

As Gupta and Wang wrote, “Yet Beijing is standing in the way, because it’s looking at the problem from the wrong angle. Instead of trying to extract technology from foreign firms today, it should be creating a hospitable environment for these firms to create and train world-class innovators.”²²

The probability, in other words, of the charming Ms. Wang working on state-of-the-art R&D projects for a foreign lab in China was remote. She would have to move to a country that did not force investors to

transfer their technologies to local champions, nor local champions to give up their spoils to the government.

A Cautionary Tale

An indicator of how a country's government may treat foreign-invested companies—especially in the worst of times—is to look at how its domestic champions fare. Multinational corporations with R&D operations in China have much with which to be concerned in light of the legal case of Cathay Industrial Biotech (Cathay).

Cathay produced a chemical building block of nylon—called a diacid—through a process of fermentation. It produced about half the world's inventory of the polymer-grade diacids and counted the chemical giant DuPont among its customers. Manufacturers use nylon ingredients to make some lubricants, while pharmaceutical companies produce diabetes drugs with the nylon components. Liu Xiucan established Cathay in 1997 in Shandong province, near the Korean peninsula, when he was 40 years old.²³

Born and raised in China he was a victim of the purges of the Cultural Revolution in the 1970s. He was amongst the first graduates of universities that had reopened in 1977 after a decade of being shuttered. Afterward, he went to the United States to receive his Masters and PhD in Chemistry. He returned to China in 1989 with the idea of finding Chinese investors to commercialize projects based on outdated patents in the West. Liu Xiucan became a darling of the Chinese Academy of Sciences and of the Beijing elite after he helped China become the largest export manufacturer of industrially produced Vitamin C in the world, with 80 percent of the market in 2010. Cathay was to be his defining moment as an entrepreneur and innovator. From its inception the central government lavished subsidies and tax breaks on the investment to ensure its success. Government largesse ended, however, when patrons found another, less willful supplicant than Liu Xiucan.²⁴

In 2011 Cathay filed a patent infringement suit against Hilead Biotech, another private Chinese company in Shandong province. Liu Xiucan accused his former plant manager, Wang Zhizhou, of infringing on patents and stealing trade secrets from his former employer

and setting up Hilead in 2009 with six other former employees of Cathay. Hilead received direct assistance from the highest levels of the Shandong provincial government, where the company was being set up. The CCP's Party Secretary for Shandong province accelerated government approvals and financing for the project. The Chinese Academy of Sciences also did its part to sponsor and promote the company and its technologies as national priorities. The state-run China Development Bank gave Hilead a US\$300 million loan to get up and running. Hilead captured a tenth of the global market for the nylon components a year after it had started up. The irony of the cut-throat competitor that Cathay had spawned was not to be lost on Liu Xiucan.²⁵

He used his own patrons at local and national levels of government to hobble Hilead. Liu Xiucan, though, had made enemies during his rise to national glory. Liu Xiucan had been going public for years about the corruption, nepotism, and fraud in state-run institutions. He had also complained about the official interference in the private sector, crippling the competitiveness of potential national champions. The accusations had weakened Liu Xiucan's political base considerably.²⁶

Wang Zhizhou's patronage, meanwhile, had only grown stronger once he left Cathay. The central government listed Hilead's diacids as national security interests. Neither foreign nor domestic challengers were allowed to impede the commercial success of Hilead without severe repercussions. Beijing stripped Cathay of one of its top patents when the company began its suit against Hilead. Hilead filed a countersuit that accused Cathay of stealing patents from the Chinese Academy of Sciences. Liu Xiucan again took the offensive.²⁷

The American-trained researcher convinced a local Shandong court to send officials to Hilead's manufacturing operation about 400-kilometers away to document that Hilead was using the same technologies and fermenting processes to produce diacids. Guards at Hilead's company gate turned the officials away with the proclamation that Beijing authorities had designated Hilead a national security interest. That meant that further intrusion into the factory compound would be tantamount to espionage. Indirectly, Beijing could construe continued pursuit of a patent infringement case against Hilead as treason.²⁸

Undeterred, Liu Xiucan told the *New York Times*, "Personally, I will not give up on this dream. I'm Chinese, you know, so the Chinese

government should want me to contribute. We're pioneers. If the Chinese government does not allow me to do this, I will find another place."²⁹ Sentiments like these from the country's leading lights only make it more difficult for the nation to realize historic heights of scientific discovery and genuine invention.

The Glory That Was Ours

China has imposed on itself several limitations to fostering innovation such as: a culture of copying, falsification, corruption and IP theft, and an education system that intentionally seeks to rub out individual initiative and creativity. Nonetheless, the Chinese leadership seems convinced it will regain the era of invention it enjoyed from about 1500 BCE to 1500 CE. Chinese are rightfully proud of their contributions to the world, which include paper, printing, gunpowder, the compass, porcelain, the clock, and much more. Invention ground to a halt in the Middle Kingdom after the voyages of Zheng He, the Muslim eunuch who several times took armadas of the largest ships to ever ply the oceans of the time from southeast Asia to India and Africa in the mid-1400s. At the end of the 15th century infighting in the imperial palace resulted in the country's breaking up the ships, "losing" the records of the amazing discoveries the armadas must have made, and shutting itself off from the rest of the world. China was content that economically, militarily, and technologically it was paramount in the world.

The throne did not see at the time that its society had hit a ceiling. To break through the barrier to further social development China required radical innovations on the order of an Industrial Revolution. The Europeans took to the new energy sources and machines the Revolution offered with a gusto that allowed the social development of the Western countries to blow past China's. China spent the next 500 years in decline, periodically convulsed by war, famine, plague, and flooding. China—and most Chinese, really—believe it is their birthright to be the most technologically astute and socially advanced society on earth, because they had already several times in history held the mantle. Many countries at various levels of publicity harbor a vision of the restoration of their former glory. There is the Glory that was

Rome; the Glory that was Greece; the Glory that was the British Empire and so on. Citizens and politicians that rally their countries around their nation's past glories ignore the critical technological and demographic trends constrained by geography.

Jared Diamond's *Guns, Germs and Steel* illustrates how China had been blessed with two rich river plains and a geography that permitted a union of states that a peninsular and fratricidal Europe could only dream of. Linking the economies and foodstuffs of the northern and southern plains allowed populations to mushroom to the extent that the societies needed to innovate or devolve into simpler states—which happened at the end of several dynasties. Now, technology has made geography matter even less, especially in the world of the Internet. Consumer societies are tightly linked through global supply chains and knitted together through international financial markets. With the low-hanging fruit of geographic advantage nearly picked clean and the Industrial Revolution model bringing the earth's resources and ecosystem to near-exhaustion, regaining past glories hardly seems germane. Instead, it's in the virtual world of digital communications that the next empires rise—and former glories are made irrelevant.

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