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As part of the *Café Insights* series of interviews with inspiring speakers, The Insight Bureau recently caught up with Vijay Vaitheeswaran, an outstanding thinker, writer and speaker on innovation who stands at the very forefront of thinking and debate about the innovations that will enable us to tackle the world's 21st century challenges. He is an award-winning correspondent for *The Economist*, who is their China Business Editor, based in Shanghai.



AV: Well hello and welcome to another in the series of Café Insights. I am Andrew Vine, CEO of the Insight Bureau and today I'm in conversation with Vijay Vaitheeswaran. Hi Vijay, how are you?

VV: Very good, thank you Andrew

AV: It's nice to see you in Singapore again. As a reminder, Vijay is the China Business and Finance Editor of the Economist, based in Shanghai. He is also the author of the book "*Need, Speed & Greed; how the new rules of innovation can transport businesses, propel nations and tame the world's most wicked problems*". It's a great title! Just recently -- and the reason we're in conversation today -- is that you're also the author of *The Economist's* latest special report on *Business in China*. So, I wanted to ask you, it was three years ago that we last sat down and had a chat like this in conversation, and I remember you saying that the jury was still out in terms of what kind of role China was going to play in the world's economy. So, it would be interesting to hear over the course of the next couple of minutes how you see China has evolved and how it *is* evolving.

VV: It is interesting; we're at a moment when China's economy seems to be at an inflection point. We've seen tremendous financial market volatility, stock market ruction that of course, captured the world's attention, a small devaluation that was handled badly by the government and that led to a crisis of confidence. So at the moment, there's a prevailing mood of pessimism about China and its economy, and I think this is overdone. Actually, when you look at China, yes, there are things to worry about to be sure, but a lot of these things arise from state-owned enterprises, the levels of debt, malinvestment, government involvement. But you have to remember that there are two Chinas; yes. There's the state sector, which tends to be poorly run, but we have an incredibly vibrant private sector and so it has really come into its own over the last decade and increasingly so in the last few years. If you look at the role of contribution to GDP, two thirds of GDP growth comes from private companies. Almost all the jobs created in China's cities in the last decade were created by private companies. If you look at output, or indeed return on assets or almost any measure, China's private sector firms outperformed the state sector. So that's why I say there are really two Chinas, and one of those Chinas, the less important one, is heading towards some trouble but the more dynamic, entrepreneurial, more innovative China is the private sector and it's going from strength to strength.

AV: It's interesting because your book says quite explicitly that innovation can propel nations, and recently even Xi Jinping said that innovation is at the core of China's future success. So how is China going to really take innovation as a success model?

VV: Well, if you looked at the future, innovation is going to be at the heart of what drives the Chinese economy forward. In the past, China relied on a model of investment that was state-driven, top-down, followed lots of subsidised capital to state owned enterprises, the property sector ... that

model of growth has outlived its usefulness. The government acknowledges this and we are really seeing a transition to one that's led by consumption, one that's led by services sector which had long been repressed in China and underneath all of this of course is the middle class that is surging. Tremendous rise in wealth is happening in this decade, in front of our eyes and the greatest middle class in world history is unfolding right now in China, and it is going to be the private sector that drives us forward. Up to half the economic growth that China needs to sustain rates of 5-6% growth for the next ten years will come through innovation. That innovation will come almost entirely from the private sector; both multinationals as well as Chinese companies, I might add, because there is an important role for foreign companies in China and a bright future for those companies from other countries that can adapt to the new realities of the new Chinese marketplace.

AV: China is at the forefront of much of research and development in the areas of science and chemistry and technology, how much is that driving the economy as well?

VV: On the question of science and technology-based innovation – because there are different kinds of innovation -- China has some room further to grow. Where China really excels is in efficiency-driven innovation, i.e. manufacturing and consumer markets innovation where business model innovation can lead to wonderful new products and services, be that the Xiaomi smart phone, or WeChat online social media services ... there are hundreds of examples like this where, in many ways, China is at the world forefront of e-commerce, social media, social commerce and setting trends that are global. But when it comes to the cutting edge of science and technology, China has some ways to go. We do have some examples of companies; Huawei, the telecoms company, Beijing Genomics or BGI which is the world's leading genomics institute. So there are examples, but certainly China is nowhere near where the United States is on this front.

AV: Is there a possibility do you think that China will be the great disruptor globally across lots of different industries?

VV: If the private sector is given room to grow, if you see further liberalisation for example, of the state sector, an opening up of the services sector, if China gives that room for the private sector to continue to grow and innovate, then I think we will increasingly see Chinese companies go global. And as they do, some of them will prove to be disruptors to global industries, up-ending them and bringing in perhaps new and better products and services to global consumers. So there will be winners and losers from this. Also, Chinese companies are going overseas so they can learn, they want to learn how to do brands, which Chinese companies don't do well...

AV: ... and it's fair to say they haven't done very well so far today, going global...

VV: No, they have not. But the first wave of globalization was really the state-owned enterprises. They went looking for resources, oil and minerals and agricultural land, and sometimes they were inefficient and sometimes they were corrupt and so there was a backlash against this sort of globalisation. What we are now seeing is a fresh wave of private sector companies. What they want is to invest in technologies, they want to get global talent and they want to bring these back to serve a booming consumer market in China, and ultimately to go back and serve the world. I think that kind of globalisation should be welcomed by the world.

AV: I was going to say, if China is successful in what it sets out to achieve, though its private sector, should the West be fearful of a stronger China like this, or is it really in its interest?

VV: I think broadly speaking it is in the world's interest. 'Interdependence' is really the story of the rise of China. The greatest beneficiaries of China's rise have probably been consumers around the

world; why can you buy cheap things at Wal-Mart? It's because they are made in China! Or why can you buy phenomenally high quality iPhones? Because they are made by Foxconn, a Taiwanese company in Shenzhen in southern China. So China's rise has greatly benefited the world already. This is a question of the next phase or evolution of that growth, how will the rise of innovative China also produce marvels. They can help the world while disrupting industries and challenging companies that might have grown inefficient in the West that needed to be shaken up.

AV: Well Vijay, it is great to talk to you. I think your report comes out at just the right time as it is all getting pessimistic about China! This is quite a good picture of how China may rise further and be a driver for economic growth. Thank you very much indeed.

VV: Thank you.

www.insightbureau.com/VijayVaitheeswaran.html

Notes: here is a link to The Economist article about the Special Report

<http://www.economist.com/news/special-report/21663327-despite-chinas-recent-troubles-prospects-its-entrepreneurial-private-sector>

Links to the full Special Report (for subscribers)

<http://www.economist.com/printedition/2015-09-12>

If you cannot access this, please email us for assistance.