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Does History Say China Wins?

By JOHN BUSSEY



At a recent business dinner, the conversation about intellectual-property theft in China was just getting juicy when an executive with a big U.S. tech company leaned forward and said confidently: "This isn't such a problem for us because we plan on innovating new products faster than the Chinese can steal the old ones."



The U.S. has lost its position as the best place to do business, and China and the rest of the East have so mastered the ways of the West that they're charting a whole new economic paradigm, Harvard historian Niall Ferguson says in an interview with WSJ's John Bussey. Photo courtesy of Jeff Bush.

That's a solution you often hear from U.S. companies: The U.S. will beat the Chinese at what the U.S. does best—innovation—because China's bureaucratic, state-managed capitalism can't master it.

The problem is, history isn't on the side of that argument, says Niall Ferguson, an economic historian whose new book, "Civilization: The West and the Rest," was published this week. Mr. Ferguson, who teaches at Harvard Business School, says China and the rest of Asia have assimilated much of what made the West successful and are now often doing it better.

"I've stopped believing that there's some kind of cultural defect that makes the Chinese incapable of innovating," he says. "They're going to have the raw material of better educated kids that ultimately drives innovation."

[Andrew Liveris](#), the chief executive of Dow Chemical, has pounded this drum for years, describing what he sees as a drift in engineering and manufacturing acumen from the West to Asia. "Innovation has followed manufacturing to China," he told a group at the Wharton Business School recently.

"Over time, when companies decide where to build R&D facilities, it will make more and more sense to do things like product support, upgrades and next-generation design in the same place where the product is made," he said. "That is one reason why Dow has 500 Chinese scientists working in China, earning incredibly good money, and who are already generating more patents per scientist than our other locations."

For a statistical glimpse of this accretion at work, read the World Economic Forum's latest annual competitiveness index, which ranks countries by a number of economic criteria. For the third year in a row, the U.S. has slipped and China has crept up. To be sure, the U.S. still ranks fifth in the world and China is a distant 26th, but the gap is slowly closing.

U.S. Drops in Rank
World Economic Forum Global Competitiveness Index

	RANKING		
	2009	2010	2011
United States	2	4	5
Germany	7	5	6
U.K.	13	12	10
China	29	27	26

Note: Selected countries
Source: World Economic Forum

Mr. Liveris believes U.S. business is approaching an innovation and manufacturing tipping point. But Mr. Ferguson says it has already tipped.

In his latest book, he names six characteristics or institutions that led to the West's political and economic dominance during the last 500 years: competition between the West's many nation states, property rights and the rule of law, the consumer society, the work ethic, the scientific revolution, and advances in medicine. It also helped that rivals in Asia were, for various reasons, weak.

Over the last several decades, he writes, those rivals have adapted these six characteristics (save the rule of law in China, "its Achilles heel"). They're catching up to the West and are now ahead in certain skills, such as math. America, meanwhile, has gotten bloated with bureaucracy, litigiousness and excess regulation, he argues, and it's no longer the best place in the world to do business.

"China has increased expenditure on research and development by a factor of six in the past decade, has more than doubled the number of its scientists and is now second only to the U.S. in its annual output of scientific papers," he writes.



A number of scholars and business people would take issue with Mr. Ferguson—and Mr. Liveris for that matter. James Bessen has written for the Harvard Business Review that patent production is a tricky measure of innovation because China, spurred by government incentives, files a lot of marginal ones. Adam Segal of the Council on Foreign Relations says the collaborative nature of the American

business and scientific cultures is still a big advantage for U.S. innovation, though he acknowledges that foreign R&D centers in China are helping transfer these skills. He has written a book: "Advantage: How American Innovation Can Overcome the Asian Challenge."

And then there's that tech-company executive: "The very heavy state hand in the Chinese economy doesn't tend to produce innovative companies," he says.

Mr. Ferguson, for his part, doesn't have an easy prescription for what he sees as American decline. The U.S., he says, should improve education, reduce regulation, fix its budget, and hone its political leadership.

Asked what he'd do if he were running an American company, he says: "I'd move to Hong Kong."

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