

A Short Summary

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A-P G-Lab

- Entrepreneurship vis-à-vis state-centric growth model
- Why vibrant entrepreneurship without “good” institutions
- The Sohu.com and Google cases

Takeaways from the Singapore case

- Three ways to grow:
 - 1) Factor accumulation: Increasing labor and capital
 - 2) Sectoral reallocation: From low to high value added industries (Agr=>Industry; Low-end service=>MFN)
 - 3) Factor allocation: Allocation to the most efficient use of resources
- State is effective in (1) & (2) but there are diminishing returns
 - Singapore reached that point already and maybe China will soon
- Relative importance of (3) grows over time.
 - You need innovative entrepreneurship in (3)
 - You also need more market-based institutions

But why vibrant entrepreneurship without “good institutions?” (First session of G-Lab)

- Catch-up phase:
 - “Replicative” entrepreneurship
 - Copying rather than innovating
 - Employment rather than technology
 - Highly adaptable to any institutions
- Frontier phase:
 - “Innovative” entrepreneurship
 - Science- and technology-based
 - You need “good” institutions: Rule of law, IPR, even democracy

Moving from catch-up phase to a frontier phase

- A highly publicized speech by Charles Zhang, Founder and CEO of Sohu.com, MIT graduate
 - Calling for “fair market competition” and “constraints on government
- The Google case in 2010

Catch-up vis-à-vis frontier strategies

- Charles Zhang:
 - Catch up phase: “In fact, we have only participated in the preliminary round of the economic games.”
 - Entering into frontier phase (?): “Now we have entered the final game. Our opponent is the most powerful, most advanced country – the United States.”
 - Catch-up strategy vis-à-vis frontier strategy: “If we still keep the current status, then the intellectual thesis is: *hardworking Confucian spirit + incomplete market economy vs. individualism + fair and complete market economy*. I think the answer is certain and depressing: We have no way to defeat America!”

Charles Zhang (continued):

- The problem comes from the incomplete market economy. *Quality and excellence come from full competition. Innovation comes from fair competition. And the incomplete market economy is interrupting the competition every minute.*
- ... In the field of media, newspapers and television stations within the Chinese system lack meaningful competition, and therefore have no credibility and respect. When the Wall Street Journal, or the New York Times point to something, the whole world pays attention, and believes them. *Because there is no respectable media organization, China's global communication power is very weak. The national media team organized by the government to promote China's brand globally is doomed to fail and has no competitive strength, because they are not a product of market competition.*

Charles Zhang (continued):

- How do we do this practically? *The problem is complicated, but the fundamental point is to limit the power of the government and to thoroughly pursue fairness.* Only by realizing maximum fairness, can those talented individuals and organizations emerge, and the society can be filled with energy and creativity. Otherwise what we have developed will not be a full market economy, but the power-elite capitalism. The government should drop those actions which take profits from the society, but spend its main energy to protect fair competition.

The Google case

- A conflict between a frontier business organization and catch-up institutions?

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