

**MNCS RUSH TO SET UP R&D LABS  
IN CHINA: WHAT IS THE NATURE?**

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*EAI Background Brief No. 332*

Date of Publication: 10 May 2007

## **Executive summary**

1. The surge in the number of Research & Development (R&D) labs of multinational corporations (MNC) in China is a very recent phenomenon. In 2000, there were only about 30 MNC R&D labs in China. The Chinese Ministry of Commerce reports that there were about 750 MNC R&D labs in China in 2006; China has also been identified as the top location of offshore R&D.
2. Image building being the sole purpose of R&D labs is not deemed as practical any more. R&D activities in China involve not only the adaptation of imported products, local sales or manufacturing support, local product development, but also product development for the global market. However, no cutting-edge technology has been developed in MNC R&D labs in China. Technology transfer to the local economy is also limited.
3. Local R&D engineers make up the majority of employees (>90%) in MNC R&D labs. The well-trained local labor provides high quality work with much lower salary than engineers' salary in developed countries. Exploration of the abundant labor pool is an essential rationale for MNCs setting up R&D labs in China.
4. The author's field study and survey on MNC R&D labs in China identified four types of R&D activities in those labs: "old product for local market", "new product development for local market", "new product development for global market", and "research".
5. MNC R&D labs, as innovation engines for MNCs, are especially welcomed by governments of developing country, due to the assumed technology transfer or spillover to the local economy. On the other hand, MNC R&D labs also have the incentives to interact with local innovation actors to take advantage of available local resources.

6. These R&D labs interact more actively with local universities than with local firms. The interaction is not found in the sense of real R&D collaboration but largely in the hiring of students and in the building of the company's image.
7. Although the transfer of technology (especially key technology) from MNC R&D labs directly to local innovation actors is limited, the presence of these labs still helps in the advancement of local innovation capability. Institutional learning from these R&D labs is noticeable for local partners especially when the interactions are close.
8. In general, MNC R&D labs bring international practice, up-to-date industrial knowledge, and project management know-how to the local people. Local government should realize the institutional demonstration function of MNC R&D labs and promote the institutional learning of local actors.