

A Great Wall of Patents: What is Behind China's Recent Patent Explosion?

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China's patent explosion is seemingly paradoxical given the country's weak record of protecting intellectual property rights. Using a firm-level data set that spans the population of China's large and medium size industrial enterprises, this paper seeks to understand the factors that account for China's patent boom. While the intensification of research and development (R&D) in the Chinese economy – a doubling of the R&D to GDP ratio since 1985 – tracks with patenting activity, it is unlikely to be the principal cause of the patent explosion. Instead this paper finds that the growing intensity of foreign direct investment at the industry level in China is prompting domestic Chinese firms to file for more patent applications for their strategic competitive value. Amendments to the patent law that favor patent holders and ownership reform that has clarified the assignment of property rights also emerge as significant sources of China's surge in patent activity.