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**SIFENG LIU • ZHIGENG FANG**  
**HONGXING SHI • BENHAI GUO**



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# Contents

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**Preface.....xvii**

**Acknowledgments .....xix**

**Abstract .....xxi**

**Authors.....xxiii**

**1 Summary of Technology Transfer.....1**

1.1 Definition of Technology Transfer .....1

1.1.1 Basic Meaning of Technology.....1

1.1.2 Establishment and Evolution in the Definition  
of Technology .....2

1.1.3 Discriminate Correlative Definition of Technology  
Transfer.....5

1.1.3.1 Technology Innovation.....5

1.1.3.2 Technology Diffusion .....6

1.1.3.3 Technology Spillover .....8

1.1.3.4 Inherent Relationship of Correlated Concept .....10

1.2 Manner and Effect Factors of Technology Transfer .....12

1.2.1 Basic Form of Technology Transfer—Technology Flow.....12

1.2.1.1 Components of Technology Flow .....13

1.2.1.2 Features of Technology Flow .....13

1.2.1.3 Channels of Technology Flow .....14

1.2.2 Ways of Technology Transfer.....14

1.2.2.1 FDI.....14

1.2.2.2 Sale of Technology.....15

1.2.2.3 License Transaction .....15

1.2.2.4 Coproduction and Cooperative Research .....15

1.2.2.5 Technology Assistance.....16

1.2.2.6 Turnkey .....16

- 1.2.3 Influencing Factors of Technology Transfer..... 16
      - 1.2.3.1 Law and Policy Factors ..... 16
      - 1.2.3.2 Market Factors..... 17
      - 1.2.3.3 Technology Basis ..... 17
      - 1.2.3.4 Infrastructure Status..... 18
  - 1.3 Main Features of Technology Transfer ..... 18
    - 1.3.1 Characteristics of Contemporary International Technology Transfer..... 18
      - 1.3.1.1 Structure Upgrade of International Transfer Technology..... 18
      - 1.3.1.2 Multipolarization of International Technology Transfer Supply ..... 19
      - 1.3.1.3 Development of Technology Transfer from Monodirection to Bidirection..... 19
      - 1.3.1.4 Transfer Technology, an Important Dynamic Move to Promote Economic Development ..... 20
    - 1.3.2 Features of Technology Transfer in China in Different Periods ..... 21
      - 1.3.2.1 Period of Imitation (1949–1959)..... 21
      - 1.3.2.2 Fumbling Period (1959–1978) ..... 22
      - 1.3.2.3 Stage of Internalization of Development (1978–1992) ..... 23
      - 1.3.2.4 Opening-Round Stage (1992–)..... 24
- 2 Technology Transfer and Its Mechanism, Characteristics, Effects, and Models ..... 27**
  - 2.1 Mechanism of Technology Transfer ..... 27
    - 2.1.1 Local Potential Difference Determines the Direction of Technology Transfer ..... 28
    - 2.1.2 Determination of Feature in Technology Transfer Elements by Margin of Interest..... 28
    - 2.1.3 Technology Elements Are the Carriers of Technology Transfer..... 29
    - 2.1.4 Principle of Energy Increase in Technology Transfer ..... 29
    - 2.1.5 Technology Transfer Has a Two-Way Network Trend ..... 31
    - 2.1.6 Technology Transfer Shows a Positive Link to Technology Level ..... 32
    - 2.1.7 Technology Transfer Is Influenced and Constrained by Many Factors..... 32
  - 2.2 Technology Transfer Properties ..... 36
    - 2.2.1 Direction in Transfer ..... 36
    - 2.2.2 Stages in Transfer ..... 36
    - 2.2.3 Difficulties in Transfer..... 37

2.2.4	“Space Division” in Transfer.....	37
2.2.5	Regional Agglomeration of Transfer .....	38
2.3	Effects of Technology Transfer .....	38
2.3.1	Associated Effect.....	38
2.3.2	Multiplier Effect .....	40
2.3.3	Coupling Effect .....	40
2.3.4	Integration Effect.....	41
2.3.5	Polarization Effect .....	41
2.3.6	Equilibrium Effect.....	42
2.3.7	Spillover Effect .....	42
2.4	Model of Technology Transfer.....	43
2.4.1	Divided by the Actionable Mechanism .....	43
2.4.1.1	Market-Guided Control Transfer .....	43
2.4.1.2	Plan-Guided Control Transfer.....	44
2.4.2	Divided by the Span of Transfer .....	44
2.4.2.1	Vertical Transfer .....	45
2.4.2.2	Horizontal Transfer .....	45
2.4.3	Division by the Vector of Transfer .....	45
2.4.3.1	Transfer of Physical Elements .....	45
2.4.3.2	Transfer of Information .....	46
2.4.3.3	Transfer of Capability.....	46
2.4.4	Division by Absorption and Processing.....	46
2.4.4.1	Simple Transfer.....	46
2.4.4.2	Absorption Transfer.....	46
2.4.5	Spatial Model of Technology Transfer .....	47
2.4.5.1	Types of Spatial Transfer and Its Disciplines .....	47
2.4.5.2	Case Study: Spatial Pattern of Technology Transfer in Zhujiang Delta Region.....	48
<b>3</b>	<b>Dynamic Mechanism and Measurement of Technology Transfer.....</b>	<b>49</b>
3.1	Constituents of the Technology Transfer System .....	49
3.1.1	Hierarchical Structure of the Technology Transfer System .....	49
3.1.2	Basic Composition of the Technology Transfer System.....	51
3.1.2.1	Source of Technology Transfer.....	51
3.1.2.2	Object of Transfer .....	51
3.1.2.3	Sink of Transfer .....	52
3.1.2.4	Information Channel .....	52
3.1.2.5	Auxiliary System .....	52
3.1.2.6	Incentive Mechanism .....	53
3.1.2.7	Internal Environment of Technology Transfer.....	53



- 3.2 Dynamic Mechanism of Technology Transfer System.....54
  - 3.2.1 Analysis of the Technology Transfer Affecting Factors .....54
    - 3.2.1.1 Technology Potential .....54
    - 3.2.1.2 Space Distance .....55
    - 3.2.1.3 Transfer Channel.....55
  - 3.2.2 Constituents of the Dynamic Mechanism of Technology Transfer.....56
  - 3.2.3 Force of Technology Transfer System .....57
    - 3.2.3.1 Attraction of Transfer Sink for Technology .....57
    - 3.2.3.2 Impetus for Technology Transfer of the Sink.....59
    - 3.2.3.3 Resistance of Technical Transfer Field.....59
    - 3.2.3.4 Gravitation of Technical Transfer Field .....60
- 3.3 Imitation of Technical Innovation and Transfer Model in Two Regions.....61
  - 3.3.1 Assumptions .....62
  - 3.3.2 Imitation Model of Technical Innovation in Two Regions.....62
    - 3.3.2.1 Market Clearing Conditions in Two Regions ....62
    - 3.3.2.2 Relation between the Imitation Rate and Innovation Rate.....63
- 3.4 Measurement of Technology Transfer.....65
  - 3.4.1 Model of Technology Transfer.....65
  - 3.4.2 Empirical Study on Technology Transfer in China..... 66
    - 3.4.2.1 Data Specification.....67
    - 3.4.2.2 Results of Calculations .....73
    - 3.4.2.3 Analysis of Results.....73
- 4 Cost and Benefit of Technology Transfer .....77**
  - 4.1 Cost of Technology Transfer.....77
    - 4.1.1 Connotation of Cost.....77
    - 4.1.2 Factors That Affect the Cost of Technology Transfer.....78
      - 4.1.2.1 Asymmetric Information .....78
      - 4.1.2.2 Financial Benefit.....79
      - 4.1.2.3 Supply and Demand.....80
    - 4.1.3 Classification of Technology Transfer Cost.....80
      - 4.1.3.1 Direction of Technology Transfer.....80
      - 4.1.3.2 Factors of Technology Transfer.....81
      - 4.1.3.3 Willingness in Technology Transfer .....81
      - 4.1.3.4 Nature of Technology Transfer.....82
      - 4.1.3.5 Participants of Technology Transfer .....82
    - 4.1.4 Nature of Technology Transfer.....83
      - 4.1.4.1 Typical Irreversible Investments Partly Belonging to Capital Cost .....83

4.1.4.2	Cost Variation in Different Domains and Aspects .....	83
4.1.4.3	Technology Transfer Cost and Nonlinear Variation of Benefit.....	83
4.1.4.4	Nature of Shift in Technology Transfer Cost.....	83
4.2	Benefits of Technology Transfer.....	84
4.2.1	Connotation of Benefit .....	84
4.2.2	Technology Transfer Benefit .....	84
4.2.3	Relation between Technology Transfer Cost and Its Benefit .....	85
4.3	Measurement of Technology Transfer Cost and Benefit .....	86
4.3.1	Measurement of Technology Talent Transfer.....	87
4.3.1.1	Cost Evaluation Model of Technology Talents.....	88
4.3.1.2	Enterprise-Based Cost Measurement Model .....	89
4.3.1.3	Example Study.....	90
4.3.2	Measurement of the Cost of Production Technology Transfer.....	92
4.3.2.1	Factors That Affect the Transfer Cost .....	92
4.3.2.2	Transfer Cost Estimation Model for Transferors .....	94
4.3.2.3	Measurement Model of the Transfer Cost for the Transferees .....	95
4.3.2.4	Case Study.....	96
4.3.3	Measurement of Benefit in Technology Talent Transfer .....	96
4.3.3.1	Benefit of Technology Talent Transfer .....	96
4.3.3.2	Measurement Model of the Benefit in Technology Talent Transfer .....	97
4.3.4	Measurement of Benefit in Production Technology Transfer .....	98
4.3.4.1	Benefit of Production Technology Transfer .....	98
4.3.4.2	Measurement of Production Technology Transfer .....	99
<b>5</b>	<b>Technology Transfer Analysis Based on Technical Diffusion Field Theory .....</b>	<b>101</b>
5.1	Technical Diffusion Field Statement.....	101
5.1.1	Technical Diffusion Field .....	101
5.1.2	Technical Diffusion Process.....	102
5.1.2.1	Plan and Choice .....	102
5.1.2.2	Digestion and Absorption.....	103

5.1.2.3	Diffusion .....	105
5.1.3	Technical Diffusion Mechanism.....	106
5.1.3.1	Form and Implementation of Technical Diffusion Mechanism .....	106
5.1.3.2	Choice of Technical Diffusion Mechanism .....	106
5.2	Analysis of the Influence Factors of Technology Transfer in the Technical Diffusion Field .....	107
5.2.1	Social Environment Factors.....	107
5.2.1.1	National Policy .....	107
5.2.1.2	Nature of the Guide-into Region .....	108
5.2.1.3	Legal Environment .....	109
5.2.1.4	Institutional Environment .....	109
5.2.1.5	Location Environment and Local Industrial Structure.....	109
5.2.1.6	Industrial Environment and Structure.....	109
5.2.1.7	Financial Environment .....	110
5.2.1.8	Information Exchange System.....	110
5.2.2	Resource Environment of Technical Diffusion Field.....	111
5.2.2.1	Personnel Quality .....	112
5.2.2.2	Raw Materials .....	113
5.2.2.3	Energy .....	113
5.2.2.4	Funds.....	113
5.2.2.5	Transportation and Communications .....	113
5.2.3	Technology Transfer Rate in the Technical Diffusion Field.....	114
5.2.3.1	Technical Relevance .....	114
5.2.3.2	Applicability of Technology.....	114
5.2.3.3	Technology Gap.....	115
5.2.3.4	Investment per Unit Product.....	115
5.2.3.5	Investment Recovery Period .....	115
5.2.3.6	Investment Risk .....	116
5.2.4	Power of Technical Diffusion .....	116
5.2.4.1	Foreign Scholars' Opinions on the Power of Technical Diffusion .....	116
5.2.4.2	Domestic Scholars' Opinions of the Power of Technical Diffusion .....	118
5.3	Technical Diffusion Analysis of the Technical Diffusion Field.....	118
5.3.1	Building of the Technical Diffusion Field.....	119
5.3.2	Law of Technical Diffusion in the Technical Diffusion Field.....	119

<b>6</b>	<b>Quantitative Study of the Technology Diffusion Field and Technology Dynamics.....</b>	<b>121</b>
6.1	Quantitative Model of the Environment of the Technology Diffusion Field .....	121
6.1.1	Environment of the Technology Diffusion Field.....	121
6.1.2	Quantitative Model of the Environment of the Technology Diffusion Field .....	122
6.1.3	Weight Calculation.....	123
6.1.3.1	1–6 Scale Method .....	123
6.1.3.2	Pairwise Comparison Matrix.....	124
6.1.4	Fuzzy Evaluation Model of the Technology Diffusion Field .....	124
6.2	Quantization of the Social Environment of the Technology Diffusion Field.....	126
6.2.1	Quantitative Analysis of the Social Environment of the Technology Diffusion Field .....	126
6.2.2	Establishment of Axis $x$ of the Technology Diffusion Field.....	126
6.2.3	Simulation of Quantitative Calculation of the Social Environment of Technology Diffusion .....	128
6.3	Quantization of the Resource Environment of the Technology Diffusion Field .....	133
6.3.1	Quantitative Analysis of the Resource Environment of the Technology Diffusion Field .....	133
6.3.2	Establishment of Axis $y$ of the Technology Diffusion Field .....	135
6.3.3	Simulation Calculation of the Resource Environment Quantization of the Technology Diffusion Field .....	135
6.4	Technology Transfer Rate of the Technology Diffusion Field.....	138
6.4.1	Technology Transfer Rate.....	138
6.4.2	Quantitative Analysis of the Technology Transfer Rate of the Technology Diffusion Field .....	140
6.4.3	Establishment of Axis $z$ of the Technology Diffusion Field .....	141
6.4.4	Simulation of the Quantization of the Technology Transfer Rate.....	141
6.5	Quantitative Analysis of the Diffusion Dynamic of the Technology Diffusion Field .....	143
6.5.1	Diffusion Dynamic of the Technology Diffusion Source and Technology Absorber .....	143
6.5.2	Quantization of the Dynamic of Technology Diffusion Field.....	146

6.5.3	Simulation of the Diffusion Dynamic of Technology Diffusion Field.....	148
<b>7</b>	<b>Technology Transfer Optimization and Disposition .....</b>	<b>149</b>
7.1	Linear Programming Model of Technology Transfer of Unipolar City Based on the Perfect Mechanism .....	149
7.1.1	Several Important Concepts .....	150
7.1.1.1	Technology Transfer and Technology Elements Transfer.....	150
7.1.1.2	Perfect Mechanism of Technology Elements Transfer .....	151
7.1.1.3	Competitive and Noncompetitive Technology Elements.....	151
7.1.1.4	Technology Transfer in a Unipolar City .....	152
7.1.2	Linear Programming Model of Technology Transfer of a Unipolar City Based on the Perfect Mechanism .....	152
7.1.2.1	Objective Analysis .....	152
7.1.2.2	Identification of Constraints.....	153
7.1.3	Study of the Properties of the Linear Programming Model of Technology Transfer of a Unipolar City Based on Perfect Mechanism .....	155
7.1.4	Case Study.....	159
7.1.4.1	Linear Programming Model for Noncompetitive Resource.....	159
7.1.4.2	Linear Programming Model for Competitive Resource.....	161
7.2	Linear Programming Model of Technology Transfer of Unipolar City Based on the Perfect Mechanism .....	161
7.2.1	Linear Programming Model of Technology Transfer of Multipolar City Based on the Perfect Mechanism .....	161
7.2.1.1	Objective Analysis .....	161
7.2.1.2	Constraint Conditions.....	163
7.2.2	Study of the Properties of the Model of Multiobjective Programming of Technology Transfer Based on the Perfect Mechanism .....	164
7.2.3	Case Study.....	168
7.2.3.1	Interpretation of Data.....	168
7.2.3.2	Calculation Results.....	168
7.2.3.3	Analysis of the Results.....	170
7.3	Measurement Model of Government Matching Funds Based on Maximum Social Benefits.....	171
7.3.1	Government Investment and Planning Model in Technology Introduction.....	171

7.3.1.1	Regional Production Function Model .....	171
7.3.1.2	Target Analysis .....	172
7.3.1.3	Constraint Conditions Recognition.....	173
7.3.1.4	Optimization Model of the Government Investment in Technology Introduction .....	174
7.3.2	Study of the Properties of the Optimization Model of Government Investment in Technology Introduction.....	175
7.3.3	Break-Even Analysis of the Government Investment Model in Technology Introduction.....	178
7.3.3.1	Production Function.....	179
7.3.3.2	Break-Even Analysis with Consideration of Production Function .....	180
7.3.4	Case Study.....	183
7.3.4.1	Government Investment and Planning Model in Technology Introduction.....	183
7.3.4.2	Result Analysis .....	185
<b>8</b>	<b>Game Strategy Analysis on Technology Transfer and Technology Innovation .....</b>	<b>187</b>
8.1	Game Model and Strategy Analysis of Technology Innovation .....	187
8.1.1	Static Game Analysis with Complete Information on Duopoly Enterprise's Technology Innovation .....	188
8.1.1.1	Construction of the Game Model.....	188
8.1.1.2	Solution and Analysis of Game Model.....	189
8.1.1.3	Numerical Analysis.....	195
8.1.2	Dynamic Game Analysis of Complete Information Theory of Technology Innovation.....	197
8.1.2.1	Game Model of Enterprises 1 and 2 with Equal Technical Content after Innovation.....	197
8.1.2.2	Game Model of Enterprises 1 and 2 with Different Technical Content after Innovation...	202
8.2	Game Model of Technology Transfer and Stable Strategy .....	207
8.2.1	Game Model and Stable Strategy of Technical Innovation of Fixed Payment Model.....	207
8.2.1.1	Construction of Game Model.....	207
8.2.1.2	Solution and Analysis of Game Model.....	207
8.2.1.3	Best Technical Content Analysis of Enterprise Production After Independent Technology Innovation.....	210
8.2.1.4	Numerical Analysis.....	211
8.2.2	Game Model and Stable Strategy of Technology Innovation while Paying according to a Certain Percentage of Total Profit.....	213

- 8.2.2.1 Modeling and Analysis .....213
  - 8.2.2.2 Numerical Analysis.....216
- 8.3 Game Model of Technical Diffusion and Its Stable Strategy Analysis .....217
  - 8.3.1 Single Monopoly of Innovator .....218
  - 8.3.2 Another Company Entering the Market.....219
  - 8.3.3  $N$  Enterprises Entering the Market .....224
  - 8.3.4 Numerical Analysis.....225
    - 8.3.4.1 Comparison of Profits in Different Stages of Enterprise 1 .....225
    - 8.3.4.2 Analysis on Gross Profit.....227
- 8.4 Game Model of Technical Spillover and Its Stable Strategy Analysis .....228
  - 8.4.1 Construction and Analysis of the Model .....228
  - 8.4.2 Numerical Analysis.....230
- 8.5 Evolutionary Game Model of Technical Innovation and Its Strategy Analysis.....232
  - 8.5.1 Construction of the Model .....233
  - 8.5.2 Case Study.....235
  - 8.5.3 Results Analysis .....236

- 9 Comprehensive Measurement of Technology Transfer and the Analysis of Its Impact on Economic Growth.....237**
  - 9.1 Comprehensive Measure of Technology Transfer .....238
    - 9.1.1 International Technology Transfer Measurement .....238
    - 9.1.2 Technology Transfer Indicators of Measurement in China .....240
    - 9.1.3 Indicators Analysis of Measurement in Technology Transfer .....240
      - 9.1.3.1 FDI Technology Spillover.....240
      - 9.1.3.2 Introduction of Foreign Technology (JSYJ) .....241
      - 9.1.3.3 High-Tech Product Imports (GJSJK) .....243
      - 9.1.3.4 Foreign Economic Cooperation (DWJJHZ).... 244
      - 9.1.3.5 High-Tech Exports (GJSCK) .....246
      - 9.1.3.6 Technology Market Turnover .....247
      - 9.1.3.7 Soft Technology Spillover in the Knowledge-based Service Sector (Z).....249
    - 9.1.4 Chinese Technology Transfer Degrees .....254
  - 9.2 Empirical Analyses in Technology Transfer and Economic Growth in China.....256
    - 9.2.1 Technology Transfer and Economic Growth Theory .....256
    - 9.2.2 Demonstration Test .....259

9.3	Technology Spillover Effects of FDI and Its Relationship with the Growth of Chinese Economy .....	262
9.3.1	Characteristics of FDI Introduced by China.....	262
9.3.2	Analysis of the Technology Spillover Effects in FDI .....	263
9.3.3	Empirical Test of FDI Technology Spillover Effects .....	266
9.3.4	FDI and Its Technology Spillover Effects and China's Economic Growth .....	274
<b>References .....</b>		<b>279</b>
<b>Index .....</b>		<b>291</b>





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# Preface

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Technology, whose importance to domestic economic development has been widely recognized, has become the main strategy for competition across nations. With the rise in knowledge-based economies and the fast pace of technology development worldwide, there is a growing trend to develop high-end technologies, notably in information technology. Accompanied by economic globalization, the rising trend of globalization in technology enables the rational allocation and flow of the elements of technology without restrictions, allows the sharing of technological activities, and the space flow of technology more frequently. Technology has made a huge impact on economies and societies through technology transfer, which is regarded as an essential step for technology to have a social and a economic value.

Technology transfer has been given considerable importance in China as it is the key for improving core competence and is fundamental for the implementation and transfer of technological innovations to production. However, technology transfer has long been the weak link in establishing a national innovation system and is a great handicap for improving the self-innovation abilities of businesses because of the lack of proper mechanisms, regulations, and policies. To promote knowledge flow and technology transfer, it is important to fully utilize governments, colleges, scientific institutions, and businesses to explore and improve the effective mechanism of technology transfer.

Starting with the concept of technology transfer and its mechanism as the main theme, several issues, such as the measurement, the cost and benefit of technology transfer, the dynamics of the technical diffusion field, optimal allocation of technology transfer, and its game theory, are discussed in this book. Meanwhile, with some empirical studies based on the reality of China's technology transfer, some adventurous attempts and innovations have been made in both theoretical and practical aspects, which reveal the mechanisms, features, effects, and modes of technology transfer. All the studies involved provide constructive suggestions on implementing China's technology transfer in a reasonable way.

The nine chapters of this book are written by the following authors: Chapters 1 and 3 are written by Sifeng Liu, Chapters 4 and 8 by Zhigeng Fang, Chapters 2 and 7 by Hongxing Shi, Chapters 5 and 9 by Benhai Guo, and Chapter 6 by Lizhong Duan.

Jeffrey Forrest, Bingjun Li, Yaoguo Dang, Hecheng Wu, Lirong Jian, Ruilan Wang, Ying Wang, Chuanmin Mi, Jie Wu, Aiqing Ruan, Yanhui Chen, Yingying Ren, Xin Wu, Sandang Guo, Sha Li, Hui Zhou, Hongjiang Yue, Xiaogang Guo, Kun Hu, Chaoqing Yuan, Xiaohua Qin, Hanbin Kuang, Shawei He, Hongyu Hu, Yedong Wang, Qian Chen, Yong Liu, Xiaoyan Qiao, Yaping Li, and Yifan Zhang have taken part in related studies. Professor Sifeng Liu took charge of the draft summarization and final approval.

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Any errors or omissions that may be pointed out by readers and experts in this field will be appreciated.

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# Abstract

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Starting with the concept of technology transfer and its mechanism as the main theme, several topics, such as the measurement, the cost and benefit of technology transfer, the dynamics of the technical diffusion field, the optimal allocation of technology transfer, and its game theory, are discussed in this book. Although there are some empirical studies based technology transfer in China, some innovations have been made in both theoretical and practical aspects, which reveal the mechanisms, features, effects, and modes of technology transfer. All of these studies provide constructive suggestions on implementing China's technology transfer in a reasonable way.

This book can be used as a textbook for postgraduates or senior undergraduate students specializing in economics and management and as a reference book for those who are involved in management, scientific research, and engineering technology.



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# *Chapter 1*

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# Summary of Technology Transfer

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## 1.1 Definition of Technology Transfer

### *1.1.1 Basic Meaning of Technology*

People's understanding of technology is diverse; the definitions of technology are varied too.

The original meaning of technology was proficiency. In the proverb "Practice makes perfect," "perfect" meant technology. Now, it is understood that technology is a process or a process system. Diderot, a distinguished enlightened thinker, materialist philosopher, and education theorist in France in the eighteenth century, gave a concise definition of technology in the *Encyclopedia*: "The technology is varieties of tools and rules system that is collaborated for a common purpose." Some scholars also define technology on the basis of its purposes, components and functions, such as Gaynor (1996) who pointed out that technology can be described in different ways: first, that technology is the realization of resources into products or services; second, that technology includes knowledge and resources, which can help to reach established goals; third, that technology is an entity of science and engineering, which can be used in production processes and product designs, and also in the exploration to gain new knowledge. Li Ping (1999) considers technology as an effective means used by people to engage in various economic activities in spite of scarce resources, and the extension of technology includes products, processes, human resource, and organizations. Huang Jingbo (2005) holds that technology is a combination of knowledge, methods, skills, and special know-how that is used by humans in understanding and utilizing nature.

In essence, technology is a kind of systematic expertise associated with production processes of goods and services, and is a combination of the means, methods and skills created and developed by humans, to realize the needs of society. In terms of social productivity, the overall technical forces include technical skills, work experience, information knowledge, and equipments of solid tools, namely technical personnel, technical equipment, and technical information in the whole society. The other characteristics of technology include purpose, sociality, and pluralism.

Any new technology arises for a purpose, and the purpose of that technology runs through the entire process of technical activities. Hence, modern technology has strong utility and commercial features. The sociality of technology requires collaboration with the community and social support; it is also subject to a variety of social conditions. These social factors directly affect the success of technology and the development process. The pluralism of technology ensures that it can be expressed not only as tools for tangible equipment, machinery, entity material, and other hardware; but also as processes, methods, rules, and other knowledge software, as well as information and design drawings that are not material entities in themselves but material carriers of other manifestations.

### ***1.1.2 Establishment and Evolution in the Definition of Technology***

The descriptions of technology transfer can be summarized as follows:

Technology transfer is the flow of technology and is an important means of technology development.

Technology transfer is the transfer, proliferation, promotion, and transplantation of technical achievements in different countries, regions, sectors, industries, or enterprises.

Technology transfer is the flow of technology in different sectors, regions, and enterprises. Through technology transfer, technology combines with production processes to form new combinations and systems of technology. As a result productivity is enhanced, and economic benefit is improved continuously.

Technology transfer refers to organized delivery activities between supply and demand. In the process of technology transfer, the two sides are mutually constrained and interrelated. As a dynamic process, the realization of technology transfer is the result of the joint efforts of both supply and demand.

Technology transfer refers to the transfer of technology from production to application, making full use of the technology and realizing its value. Technology transfer includes the combination, transplantation, transmission, communication, and popularity of technology.

The international community discussed the issue of technology transfer for the first time in the first session of the United Nations Conference on Trade and Development in 1964. The meeting defined the input and output of technologies among countries as technology transfer. It is important to understand that technology

transfer is not the physical transfer from point A to point B. It is also necessary to ascertain the systematization and complexity of transfer activities to make the connotation of technology transfer clear. As understood universally, technology transfer can be expressed as a certain type of technology-based diffusion process, which represents a certain technical level of knowledge. The United Nations' definition, in "International technology transfer in the draft code of conduct," refers to it as the transfer of system knowledge on the manufacture of a product, producing methods or providing service, but does not include the sale of goods or simply rent. Two representative views are more enlightening: the first is the definition made by Rose Bloom of Harvard University. In his view, technology is acquired, developed, and utilized through a path which is entirely different from its origin, and this process of technical change is technology transfer. The definition stresses the point that we must emphasize the adaptability of technology and environment in this shift, and not simply the move from one place to another. The other view was put forward by the American scholar Sipei, S.A. Based on the organized thought of human behavior promoted by anthropologist Harrington, technology transfer is organized work to achieve the goal and to make the necessary technical information move reasonably. He limits it to the planned and rational flow between the government and enterprises, and emphasizes its orderliness and regulations.

In the late 1970s, the concept of technology transfer came to China. The time that the Chinese were introduced to this theory can be traced back to as early as 1978. Tang Yunbin (1978) quoted the definition made by H. Brooks of Harvard University. Brooks holds technology transfer is knowledge developed in a certain group or agency, but this kind of knowledge is realized in matters of other groups or agencies. There are two types of transfers in his opinion; one is vertical transfer, which refers to knowledge transferred from general and common areas to more specialized fields, often from the basic new scientific knowledge to the field of application technology, namely the broader technology transfer. The other one is horizontal transfer, it refers to technology transfer from one application to another application, in the narrow sense of technology transfer. This horizontal transfer is divided into three categories: the first is achieved through trade, namely buyers introduce advanced technology through the purchase of advanced products. The second is the pure or original meaning of technology transfer, which is the technical trade of licensing trading. The buyers introduce technology to self-production, using the technology itself for trading. This is the so-called turnkey package deal. The contents of transfer include production technology and the corresponding equipment, plant, as well as staff training, and production preparation.

In 1982, the *Outlook* magazine no. 8 published an article "What is technology transfer?" to explain the term. In the interpretation, technology transfer was defined as the transfer of the results of science and technology, information, the transfer of ability, transplantation, import, promotion and popularization, and so on. For example, industrial production will put raw materials, technology, equipment, products, drawings, technical programs, design, as well as some theoretical research

results and ideas for exchange in areas, or departments. Scientific technology transfer can happen in many forms. There are two general types and five channels. Of the so-called two types, one is inner transfer, and the other is transfer to production applications. The five channels are from the laboratory to production (including basic research, applied research, application of research and development to production), from military to civilian application, from the advanced region, sector, or industry to backward regions, sectors, industries, from the urban to rural areas, from domestic to foreign countries.

From the 1980s, many Chinese scholars began to study the issue of technology transfer. The most representative of their work is the gradient theory of technology transfer promoted by Yulong Xia and Zhongxiu He. In March 1982, Yulong Xia of Shanghai Institute of Science published an article named “Gradient theory and regional economics” in the magazine *Research and Suggestion* and promoted “gradient theory.” In the same year, Zhongxiu He of the Tianjin Science and Technology Commission submitted a paper “On the gradient transmit of technology” at the World Assembly of Sociology. It was the first time that the “Domestic technology transfer to promote the law of gradient” was promoted. They pointed out that there is a natural gradient distribution in the economic and technical development in China—coastal, central, and remote areas—due to the economic and social imbalance. The mainland and a number of remote areas are rich in resources. But owing to historical reasons, insufficient funds, and slow development, technological development is poor, resulting in quite a few areas still in the traditional and backward economy. The central region is in the middle level whereas the coastal areas are equipped with “advanced technology”; the strength of their economy is obvious. Domestic technology should be adopted by the technical services, the transfer of outcome, compensation trade, joint ventures, and joint companies to achieve the transfer gradient of technology, namely, transferring “advanced technology” to “intermediate” and “traditional” technology. Later, the theory of evolution became the guiding ideology of China’s macroregional development. Some academics have suggested a gradient transfer theory with a different view. Yuan Gangming (1997) pointed out that China’s western region can introduce and develop advanced technology on their own and do not have to accept the technology delivered by the main coastal areas. In the western region, there have been a large number of successful cases of introducing and developing advanced technology to go beyond gradient sequencing and get faster development. The gradient policy favors the developed regions and delays the development of underdeveloped areas, which will only increase regional disparity. Kai Liang and Lianshui Li (2005) put forward the counter-gradient theory and pointed out that less developed areas should develop in leaps and bounds, taking advantage of the income tax preferential policies extended to technology transfer in the Chinese Corporate sector to assess the effect of analysis using cost–profit analysis, charts and draws analysis, and other methods.

In the late 1990s, the academic community reached a consensus: the time and space spread of technology was defined as technology diffusion, the transfer from

the laboratory to the production unit was referred to as technology transformation, technology owners granted the right of application to other people; all of which is collectively referred to, in the broad sense, as technology transfer. This book is in favor of such a consensus.

The connotation of technology transfer is still in the development stage while the study of technology transfer theory has been developed further. With world-wide competition in science and technology, technology transfer research has a wide range of areas for research and an equally wide scope for increase in the content.

### **1.1.3 Discriminate Correlative Definition of Technology Transfer**

#### **1.1.3.1 Technology Innovation**

The concept of technology innovation was firstly proposed by economist, Joseph Schumpeter. Schumpeter used the word “innovation” for the first time in his book *Theory of Economic Development* (German), which was published in 1911 followed by an English edition in 1934. The book reads: Innovation is the economic system, which took place in a serious deviation from equilibrium. It cannot make a new equilibrium in the balance on the basis of the old through the gradual adjustment to achieve. In 1928, Schumpeter published a new article “Instability of capitalism” in the *Journal of Economics*, which discussed innovation for the first time. In his view, innovation is a productive resource for innovative applications, with nongradual characteristics; innovation needs a large amount of venture capital before benefits can be reaped, the resistance to success stems from the unprecedented and uncertain nature of the innovative activities. In 1939, Schumpeter systematically described the theory of innovation in his book *Business Cycle*, where innovation is described as the introduction of a new economic system in the production function. It is mainly generated by the role of entrepreneurs. Innovation can be divided into technology innovation and nontechnology innovation. An important characteristic of his innovation theory is that he looks at it as the reason that capitalist society appeared a significantly nonbalanced economic cycle. In 1951, Solomon wrote an article titled “Capitalism in the process of innovation—on the theory of Schumpeter” in the *Economics Quarterly*. Solomon thought the significance of technology innovation is that it is a major source of economic change consisting of two parts—conceptualization and development work. It laid the foundation for the definition of future technology innovation. In 1953, anthropologist H.G. Barnett wrote a book *Innovation—The Basis of Cultural Change*. In his book, he analyzed innovation in sociology and psychology, and proposed that innovation is essentially systematic attention to the process, with special emphasis on the innovation of a process with a nonprogressive nature. In 1954, W.R. Maclaurin published the article “Invention and innovation to the order and its relationship with economic growth” in the *Economics Quarterly*. In his opinion, innovation emerges when invention is introduced into commercial applications in the form of a new or improved product or process. Moreover, he pointed out that invention and innovation are both completed at different stages



by ordinary individuals or institutions, indicating that invention and innovation overlap between these two stages, but they have different characteristics. In 1962, J.L. Enos gave a complete definition of technology innovation for the first time in the “Oil-refining industry of invention and innovation,” pointing out that innovation is the successful outcome of a series of activities, which include the search for innovation, the implementation of the funding, the establishment of organizations, employment of workers, the development of the market, etc. In 1963, a corporation named Arthur. D. Little separated the concepts of invention, innovation, and diffusion in an article titled “American industrial technology and innovative form and issue” for the United States National Science Foundation. In their opinion, technology is taking the lead in developing and refining inventions of practical value on the product or process ideas. Technology innovation is the invention for a commercial application. The proliferation of technology innovation is widespread. In 1974, C. Freeman in his book on “Economics of industrial innovation,” defined technology innovation as new products, new processes, and new systems or the beginning of a new device from the laboratory to its commercial success in application and the whole of the activity process. In 1977, E. Mansfield published his book *New Industrial Technology in Production and Application*, in which he pointed out that innovation is the whole process of development of a new product from the time of the exploratory work until the new product is available for sale. At this point, the basic concept of technology innovation got a commitment, and formed a relatively consistent. In 1985, R. Moss of the Bell Labs Moss in the United States gave a “definition of technology innovation,” published in *Project Management Journal*, pointing out that in their collection of about 350 articles on technology innovation literature, 75 percent showed striking consistency. This is now the definition of technology innovation—the process beginning from the idea of a new concept to the success in a meaningful way of the practical application of the idea for nontechnical phenomenon. Economists generally believe that productivity growth and a corresponding increase in the per capita income depends on the continuous process of technical change. This process, to a large extent, is reflected in the success of the new infrastructure development, production, and distribution. Wang Yingluo and Jia Liqun summed up all the past versions and defined technology innovation as follows: it includes new products, materials, technology, or other systems based on the direct use of natural and technical knowledge, as well as the application, development, design, drafting of the product specification, manufacturing production prototype, and preproduction processes.

### 1.1.3.2 *Technology Diffusion*

Technology diffusion is a topic widely explored by economists, and is closely linked with technology transfer, technology spillover, and many other related concepts. Technology diffusion is the simply the description of the movement of technology from one place to another, or from one user to another. In general, a technological innovation is limited in its economic and social impact on productivity improvement,