

Esteemed State Councilor Mr Ma Kai,
Distinguished leaders of State Administration of Foreign Experts Affairs
P. R. China

Distinguished guests, dear friend, ladies and gentlemen,

Good afternoon! Firstly my warm congratulations to the 65th anniversary of the founding of peoples republic of China.

I am Edmund Phelps, an American economist. I am honored to receive the China Friendship Award, as are the other awardees gathered here. Speaking on behalf of all the awardees, I want to convey our deep gratitude to the Chinese government for bestowing on us this prestigious award. We also appreciate the award ceremony that the State Council has arranged here at the Great Hall of the People.

I want to say a few words about my own experience in China. It has been an exciting time. I have had the privilege of interacting with many brilliant Chinese in economics, finance and business. My first visit to China was in 1994, when the early economic reforms were only a decade old and further important ones were still to come. In Beijing, streets had few cars and there were not many tall buildings. In the economy, the emphasis for the next 10 years was on exports and capital investment – equipment, apartments and factories.

In 2004 I started going often to China. I lectured at Peking University and other universities, and soon I began speaking at the Nobel Economics Forum. I saw the transformation that had occurred in Beijing and was occurring in a great many other cities.

In early 2010, I accepted an invitation to be Dean of a new institution – the New Huadu Business School, created by Chairman Chen Fa Shu. I

felt at the time that China was beginning to face new challenges. Exports had dropped down to a lower growth path and the steep growth path of investment expenditure was beginning to look unsustainable. I reasoned that investment in China would run into severely diminishing returns if its rate of technical progress was not sustained; and sustaining it would require China to step up its indigenous innovation.

My work at NBS with the Chairman of the Board, Professor He Zhiyi, has been a new chapter in my career. In speeches to government officials and others, I argued that China needs more entrepreneurs and better trained entrepreneurs, of course; but, above all, China needs more indigenous innovation – more start-up companies with new ideas and more new ideas in existing companies. Professor He arranged visits to companies so I could gauge how far they have come.

Estimates by James Mirrlees and others suggest that most investments in the Chinese economy over recent years have run into sharply diminishing returns – more sharply than I had imagined. The good idea is that estimates by my colleague Gylfi Zoega of the contribution to Chinese productivity growth that could reasonably be attributed to indigenous innovation is bigger than I had thought. I believe that China can take actions to step up its rate of indigenous innovation.

As I have been arguing, the indigenous innovation of a country is fueled by the people's imagination and creativity; and the Chinese have those human powers as much as other people. But -- the key step--- this fuel has to be sparked by the "dynamism" in the economy-- the *desire* of people to attempt innovation, peoples' *capabilities* at innovating and the *latitude* society gives to innovators. If this dynamism runs wide over the economy-- pervading all or most industries-- and if it runs deep -- down to the grassroots of the society -- the force of this dynamism will be powerful.

The rewards of such an economy are profound. The most valuable rewards are non-material. Workers are engaged and challenged. Careers become voyages of creation and discovery.:

It has been immensely gratifying to see a new enthusiasm in China for wider indigenous innovation. I was thrilled to read the speech by Premier Li Keqiang to the World Economic Forum in which he spoke of the power of *grassroots dynamism*. “Just imagine,” he said, “how big a force it could be when the 800 or 900 million *workers* [in China] are engaged in entrepreneurship, innovation and creativity.”

I am proud and grateful to have had the opportunity to witness – and to take part in – the new spirit of inclusive dynamism that is spreading through the nation.