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Shanghai and Disruptive Innovation

Shanzhai: The disruptive potential of innovation from below.

By [Anna Greenspan](#), December 30, 2014



Almost Starbucks (Renato Ganoza)

The theorist most attuned to the entrepreneurialism of the street is economist Joseph [Schumpeter](#). He saw capitalism as a biological organism, an entity in a constant state of becoming.

The agent of this constant mutation is the entrepreneur.

Operating at the edges of the system, the entrepreneurial function creates ruptures of change by replacing old arrangements and hierarchies with those that are unfamiliar and unknown. Schumpeter famously named this process “creative destruction.”

Shanzhai

China's word for disruptive technology is shanzhai, which translates literally as “mountain village” or “mountain stronghold.” The term has strong subversive connotations denoting a zone that operates outside of the law.

Shanzhai belongs to the rebellious side of Chinese culture. In contemporary (originally Cantonese) slang, shanzhai refers to the cheap knock-off goods produced by small, low-quality factories in southern China.

As a concept and practice, it is rooted in the fiercely autonomous [Special Economic Zone](#) culture of [Guangdong](#). Shanzhai, many note, sounds a lot like Shenzhen.

From the start, shanzhai differed in a small but significant way from the familiar piracy of counterfeit Gucci watches and Louis Vuitton bags that proliferate in the new Chinese metropolis.

Unlike standard knock-offs, shanzai products don't try to hide that they are copies. At first, shanzhai referred almost exclusively to mobile phones, a device that has a special affinity with disruptive technology in the developing world.

A particular niche in the mobile phone industry

Shanzhai ji (bandit phones) came into existence in 2005, the year that Mediatek, a semiconductor design company from Taiwan, introduced an innovation that significantly reduced the cost and complexity of producing mobile phones.

Developers could create their own product, without having to fund costly R&D or face the threat of legal action for infringing intellectual property rights.

Shanghai: In-Depth Look at a Global City

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- [Shanghai – Gazing At Its Own Image](#)
- [Shanghai and China's Embrace Creativity](#)
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- [Shanghai: The Underground Economy](#)
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In 2007, the industry got another boost when regulators stopped insisting that companies needed a license to manufacture cellphones.

Takeaways

The word shanzhai can be used to describe anything that is non-official, underground and inexpensive with acceptable quality.

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This Do-It-Yourself (DIY), grassroots ethos has spread virally throughout Chinese culture.

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Apple has taken the top end of the market. Shanzhai will take care of the rest.

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People in rural India want a low-cost, jewel-encrusted mobile phone that displays pictures of local gods — done.

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Since then, shanzhai phones have mushroomed, capturing an enormous share of both the domestic market — as well as of emerging markets in Asia, Africa, the Middle East and South America.

Shanzhai companies like [G'Five](#) have grown into some of the largest producers of mobile phones in the world. They are posing what may well be a lethal challenge to famous brands such as Nokia, Motorola and Samsung.

Many businesses with humble shanzhai origins are now becoming formidable market disrupters — and, in many cases, market leaders. Apple has taken the top end of the market. Shanzhai will take care of the rest.

From imitation to innovation

With the proliferation of shanzhai products in both China and abroad, shanzhai manufacturers are slowly making the shift from imitation to innovation. The mutation was not intentional.

Due to shanzhai's uniquely rapid production cycle, companies have been forced to innovate simply because the branded companies are too slow to come up with new products to copy.

When there is nothing left to counterfeit, you have to try to come up with something new.

Indeed, their incredible speed is one of the key characteristics of shanzhai producers. This accelerated pace demands innovation.

Today, companies need only speculate on a product and the shanzhai version immediately exists.

As they evolve, shanzhai companies are inventing their own production ethos. The makers of shanzhai are no longer just rebelling against expensive world-leading brands. They are emerging as indigenous adaptors and innovators.

Compared with the big branded names in mobile phones, small shanzhai businesses come equipped with "powerful and efficient sensors." Their speed and bottom-up networks of distribution allow them to get ideas for designs and functionality directly from agents and customers.

People in rural India want a low-cost, jewel-encrusted mobile phone that displays pictures of local gods — done. Obama is wildly popular and people want a phone that displays his smiling face — no problem.

Out of the cell phone market in the wilds of Shenzhen, then, shanzhai has built an anti-corporate community that is fast, flexible and willing to take risks. This Do-It-Yourself (DIY), grassroots ethos has spread virally throughout Chinese culture.

Today, the word shanzhai can be used to describe anything that is non-official, underground and inexpensive with acceptable quality. Shanzhaiism has become a philosophical term denoting a Chinese style of innovation with a peasant mind-set.

Shanzhai's cool DIY spirit has a nationalistic pride, but it is rooted not in the strength of the state but in the flexible, creative culture of the street.

Shanzhai (translated as copycat) is one of ten words to best capture contemporary China.