

Taming the IP Dragon

Corporate Practices



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Increasingly, international manufacturers are motivated to be in China due to the growing domestic demand of the Chinese marketplace. It is easy to see why when you consider that last year, Chinese consumers bought more automobiles than Americans for the first time in history. Tim Lee, General Motors Shanghai-based president of international operations recently said that he thinks it won't be long before GM will sell more cars in China than in its home market.

However, despite this optimism, all is not well in Chinese – Western relations. Perhaps the most high profile case is that Google, one of the world's most ambitious and recognizable technology companies, was willing to pull out of China; defying censorship regulations despite its 30% share of China's internet search market. The key issue this action raises needs to be addressed by Chinese policy makers and must be rigorously considered by all global executives and risk managers who are seeking to do business in China. I am talking about intellectual property (IP) theft.

Google's allegation of state-supported IP theft raises questions about the ability of any business to safeguard IP in China and just how many companies avoid the Chinese market because they fear they could lose their most valuable assets; IP rights.

China's extremely loose IP regime has been a key element in the country's growth, and until Google's recent stand, western businesses have been willing to trade on these terms; balancing IP risk against their own short- and long-term business development goals in China and Asia. However, I argue that western businesses will increasingly develop dual strategies to balance their regional sourcing goals in order to harness low cost sourcing requirements with alternative strategies for gaining access to domestic Asian markets. One such strategy will be India.

According to a study performed by the London

School of Economics, both India and China are capable of world class manufacturing processes. The study on the supply chains of the two countries' automotive industries, found that two-thirds of their domestic suppliers were able to meet western quality standards and have a large sub contract base to outsource component manufacture. The recent flow of major global companies setting up sourcing operations in India emphasises India's growing attraction as a manufacturing base for western companies: Fiat and Chrysler, BMW, Ford, and Jaguar Land Rover have all recently established India sourcing; Walmart is looking to make India a major sourcing hub and Atlas Copco set up global sourcing in India

India is now in the early stages of a manufacturing revolution of the kind that China commenced in the 1990s, and it is increasingly seen as a viable alternative to China for sourcing manufactured goods. Add to this that India, with its legal system roots planted in English law, is seen as a much safer environment for international firms to protect IP, and India could become a serious threat to China's manufacturing dominance.

Also, as trade between China and India continues to grow to be one of the world's largest trading blocks, India could become the Asian base of choice from which western companies centre regional market strategies and also gain access to the huge Chinese market. To address this challenge I argue, China must tame the IP dragon in two ways; tighten its IP regulatory framework to protect western investment, whilst also continuing to internationalise via M&A, and cooperation, to secure its own IP.

The internationalisation route has already been followed by Huawei Technologies, Haier, Sun Tech Solar and Chery International, and more recently by Geely's \$1.8bn acquisition of Volvo. In this way China can tame the IP dragon and maintain its country of choice position amongst western companies in the long term. ■



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