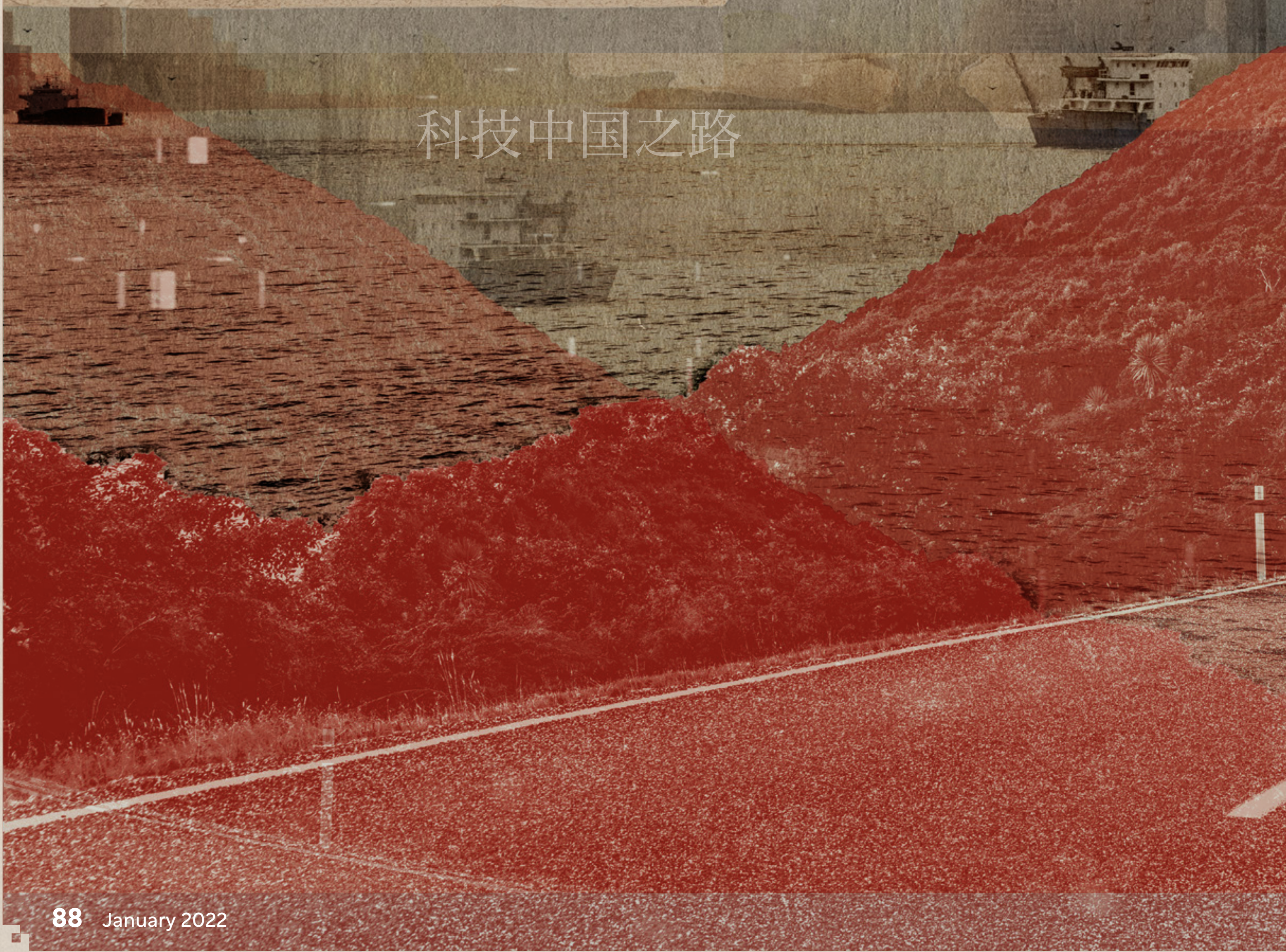
企業戰略

WESTERN TECHNOLOGY'S *ROAD TO CHINA*

WRITTEN BY: ALEX TUCK

*The **Chinese tech market** is riddled with controversies and complexities, but for those who brave the journey, the rewards are infinite*



There is an old Chinese proverb that says 'a little impatience will spoil great plans.' With US and China trade wars escalating again, and warnings around ethics, rights and intellectual property, should western technology providers steer clear of the Chinese minefield or sail bravely into the dangerous winds that so often accompany this rewarding but fiercely competitive market?

China's rise to the second largest economy in the world is mainly due to foreign direct investment it has received since it started opening its economy, estimated to be around USD $1.6 tn.

Oracle remains in a strong market position but some would argue that it has come at a negative PR cost to the brand. SAP and Alibaba forged a successful partnership in 2018 and SAP continues to make in-roads in the country. Notably there have been recent exits for Yahoo and LinkedIn too, but does this bely a tech market that blossoms quietly in the shadow of Big Tech?

Dr. Edward Tse of Gao Teng Advisory is considered the "Father of management consulting in China" according to Australia's InTheBlack magazine. China Daily has also labelled Dr. Tse as "China's leading management guru". Author of several books including the PwC recommended 'The China Strategy', Tse elaborates on the possibilities of technology, saying that "after well over one decade of innovations that rode on the wireless internet, China has now entered into a new era of technology that is epitomised by new disruptive technologies such as 5G, AI, blockchain and cloud computing."

Tse cites evolving policies and regulations, as well as demand pattern changes, as driving new tech innovations. In Dr. Tse's words, "new players, including both foreign and local, will emerge along the way, creating even more competition and collaboration across the board. As such, we can expect generations of newer and more competitive players emerging in due course, further underscoring China's role as an epicenter for innovation going forward."

Alex Barton is Managing Director of Intralink China, an international business development consultancy with a 30-year track record of helping western tech firms expand in China, Japan, South Korea and Taiwan. Barton leads Intralink's teams in

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Shanghai, Beijing and Taipei, which help western tech companies expand, do deals and form partnerships in Greater China.

He is first to admit that on one hand, things aren't getting any easier for outsiders: "Beijing is clamping down on international tech and there are many cultural and practical complexities for international tech firms to address if they want to break into China. But the country remains a lucrative market for tech firms that take the right approach," he said.

"China can't realistically shut itself off from the rest of the world, and the country's long-term drive towards technological self-sufficiency – especially in areas such as semiconductors – is actually creating big licensing and supply opportunities for western firms with the right enabling technologies to offer."

Despite some big name exits, Barton insists "the outlook among international firms here is generally optimistic, with most either maintaining or increasing their commitment to the market."

"WHEN PLANNING THE ENTRY, IT IS EQUALLY IMPORTANT TO PLAN HOW YOU WILL EXIT"

MARK SCHAUB
SENIOR PARTNER,
KING & WOOD MALLESONS

THE 'MADE IN CHINA' POLICY

A fly in the ointment is the 'Made in China 2025' policy, which aims to strengthen homegrown technology and decrease reliance on international tech longer term. Although Barton doesn't see it that way, insisting "the international firms that are in the best position to succeed are those which are licensing technologies to the growth industries identified in the policy."

Barton acknowledges the irony of the short-term situation, saying "many of our overseas tech clients are actually benefiting from this - supplying components and licensing technologies to strengthen Chinese corporations' developments in areas including EVs, biotech, robotics, new materials, renewable energy and machine learning."

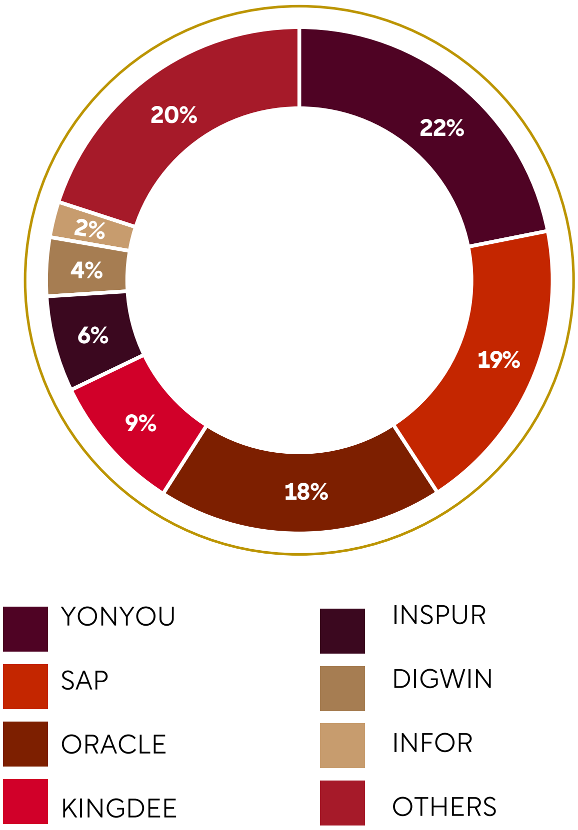
Barton remarks that "Chinese investors are typically much more interested in investing in firms that have a clear 'China angle', rather than those who simply have a proven track record overseas."

ATTRACTING CHINESE INVESTORS

Mark Schaub, Senior Partner at King & Wood Mallesons, states that "most joint ventures last around 10 years. China is dynamic so it's unlikely that a 20 year old joint venture contract will accurately chart the course of the JV. Tech companies should seek to own as much as possible of their IP; ensure they remain relevant to the China business and know the likely course if it falls apart (such as who will buy out who)."

Market share of major vendors

Source: Company data, Jefferies(Aug 2020)



According to Schaub, if a younger company wishes to attract Chinese investors, they must consider the following factors:

- Do you have a China story?
- Are there any people in the company with a China background?
- For your product or service, does China provide wind in your sails or headwind?
- Are you willing to establish an entity in China and let the Chinese partner take a stake?

Schaub insists that most tech companies that are looking at China without a China investor "will tend to go for a Wholly Foreign-Owned Enterprise (WFOE). JVs are, however, more popular than they used to be."

Much will depend upon exit or operational intentions, insists Scaub, saying "if you're a Western tech company with a lot of resources

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MANAGING DIRECTOR, INTRALINK

and China is an important market, then you are likely to start with a WFOE as it offers more control and is easier to operate.

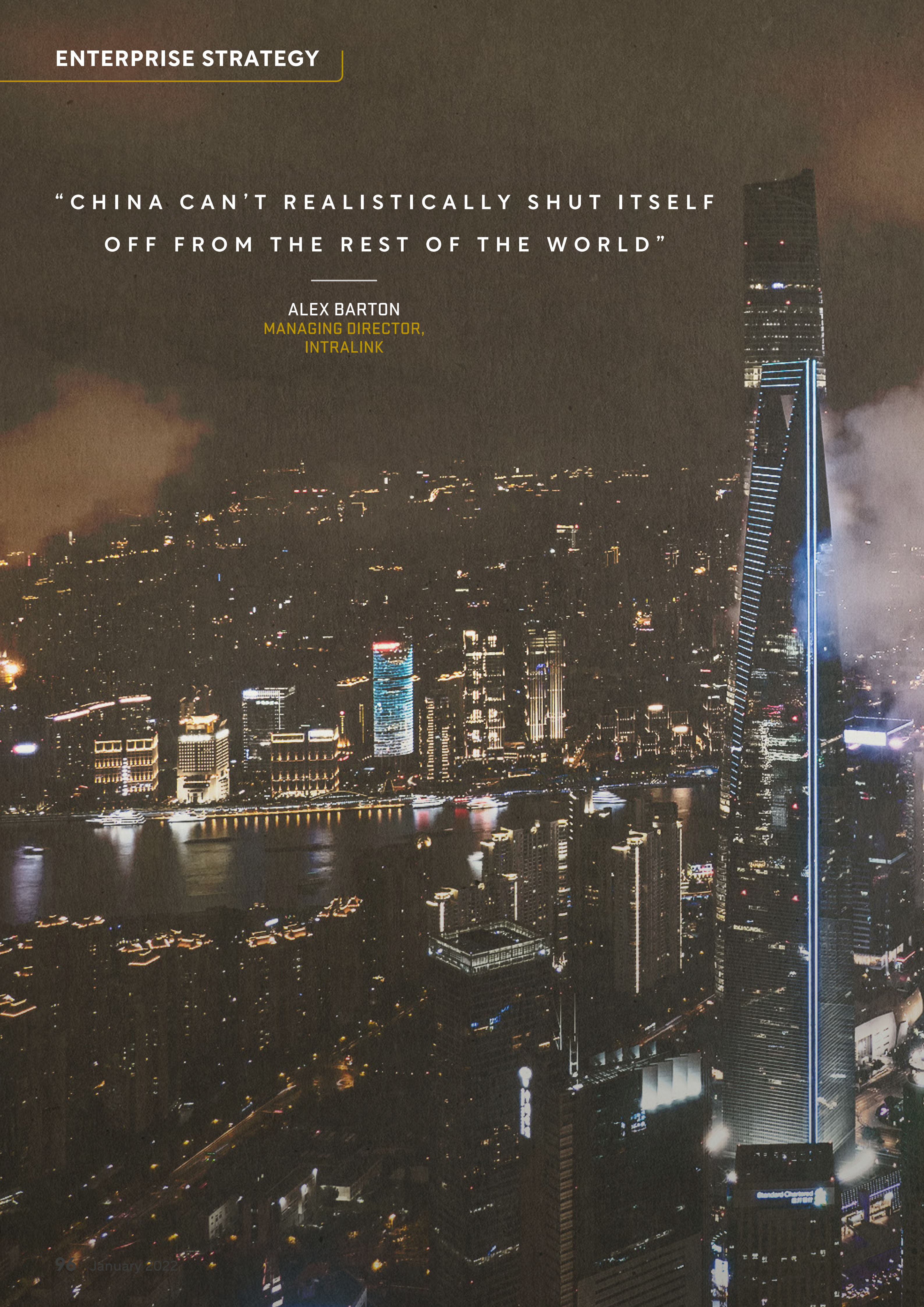
Partnership is another option, according to Schaub. "In such cases you will give up control and let the China partner run the show. leaving you to concentrate on other markets. There may well be divergence. If you are a Western tech company that faces legal restrictions in respect of investment or operation, then you may need to do a JV to set up in China (but this is rare). When planning the entry, it is equally important to plan how you will exit."

Heeding caution, Schaub says that IP protection is another natural fear for any business operating in the territory, with Schaub adding that China is getting better when it comes to this: "IP litigation is increasingly popular and Chinese companies are also taking action. It's important for western companies to secure rights to their brand (China is first to file jurisdiction for trademarks); create and own the Chinese brand; register patents asap; and for many tech companies, it's worth registering the copyright in their software (not legally required but does make enforcement easier and it is very affordable.)

MAJOR ISSUES FOR TECH FIRMS IN CHINA

China is an extremely fast-paced business environment, where innovation is rapid and local competitors move fast. As Barton says, "If you can't compete on pace, make sure you can compete well on features."

Service expectations are also exceptionally high from Chinese customers,



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demanding a fast turnaround on requests, intensive customer support and strict deadlines for project deliverables.

It's about responsiveness, according to Barton: "you need to be geared up to be highly responsive at every stage of the pre-sales, sales and post-sale periods. Ideally, have a presence in the same time zone as your customer, staffed by people who speak the local language."

Undoubtedly, the challenge of local competition is massive too, with Chinese companies often willing to endure short-term losses for long term gains - frequently backed by cheap loans or government subsidies. "This necessitates a long-term view on investment in China, rather than expecting a fast ROI", as Barton sees it.

"Be prepared to subsidise your China business in the short term. And don't jump in before properly assessing the market and validating the competitiveness of your tech solution in the market. China represents a hugely valuable opportunity for international tech firms, but it's essential to know what you're getting into and to be prepared to do what it takes to compete," he continued.