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# From the Outside in: China’s Dragons are here

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*Like a blockbuster movie 20 years in the making, China's dragons have evolved to push the boundaries of global competition.*

Accelerated innovation is the new frontier of global competition and it's a space where China's go-global companies are excelling. "Even if you're not intending to go to China, the Chinese are coming to you" says **Peter Williamson**, Professor of International Management at the University of Cambridge, Judge Business School.

Although China is not new to innovation and its history of innovation dates back many centuries, many still believe that China's low cost simply results in low prices. But it's more than the struggle for lowest possible prices, he told *Perspectives@SMU* on the sidelines of SMU's Shaw Foundation Distinguished Faculty Lecture Series. "It's about using your cost advantage in an innovative way."

Co-author of "*Dragons at Your Door: How Chinese cost innovation is disrupting global competition*", Williamson emphasises that, contrary to another long-held perception of China as imitators of technological innovation, their current focus is on re-engineering and industrialising R&D and innovation to make it much faster and cheaper. They now compete on innovation but not necessarily on the basis of technological breakthroughs. Instead, they are innovating across a broad front including new applications for existing technologies, reviving technologies that are considered mature and developing innovative business models.

The name he gives to these Chinese companies, "dragons", captures the fact that they are pushing the boundaries of conventional global competition and using the unique scale and capability of China to push out into the world. Their emergence is not a sudden phenomenon, says Williamson. Most companies have been working quietly for 20 years building their capabilities inside China—unseen by many outside—he says, pointing to the example of AAC Technologies.

Headquartered in Shenzhen with research facilities around the world including Singapore, AAC Technologies started in 1993 making buzzers for alarm clocks. Twenty years later, it is a major supplier of the microphones and cameras to leading makers of mobile phones. Few anticipated the rise of companies like AAC and how fast they would learn and innovative, given their humble beginnings.

Outsourcing to China has been important in allowing the dragons to learn very specific skills and then enter the global supply chain. "And once they get in, they start to expand their presence along the chain," he says. They have also followed an 'outside-in strategy' in expanding globally: building their strength in peripheral markets like Africa and the Middle East—of less significance to established competitors—and then moving to more developed markets. "The biggest supplier of television sets in Africa is a Chinese company called Hisense," he recalls.

# Not yet time to give up and go home

Dragons have their weaknesses, he says, citing immature brands and a lack of international experience in running complex organisations across countries.

"Building a brand takes time, even decades, and a lot of subtle cultural knowledge."

The same goes for building organisations, he adds. Nestlé, for example, has 100 years of experience in running an international company.

However, rather than view the challenges posed by accelerated innovation by the dragons as a simple battle between China and non-China enterprises, Williamson prefers to see it as a race to the future: "Both groups are trying to develop the products and capabilities to win in tomorrow's global market from different starting points."

# Lessons for policymakers

Chinese companies are fundamentally pragmatic, rather than idealistic, he says, which leads to a close working relationship between companies and the government. In Africa, for example, they have helped African countries develop free trade zones in many places, a policy that contrasts with many non-Chinese companies that don't wish to deal with the broader institutional-political possibilities.

Williamson suggests companies need to match what the dragons are doing through a better understanding of cost innovation approaches are practiced in China to improve value for money and accelerate product development.

"I also think it's important that you become competitive in China itself; you can't let the dragons have the Chinese market to themselves, because you will be exposed to them coming out," he notes.

According to Williamson, there are several ways to meet the challenge. They could include acquisition of any necessary complementary skills through leveraging a Chinese subsidiary (where one exists), acquisition of a company (as with Nestle's US$1.7billion acquisition of Hsu Fu Chi, a Chinese confectionary firm that is listed in Singapore), and the formation of an alliance with a Chinese company to jointly conquer the global market.

Yet as companies limber up and endeavour to meet the challenges, he believes management of intellectual property is becoming an even more pressing issue which he should become a mandatory part of the C-Suite agenda.

“I think people should work very hard to try and protect their intellectual property. That’s difficult to do inside China but you can do it outside China once the Chinese companies come abroad.”

Above all, Williamson says, non-China corporate policy makers and strategists need to watch out for ‘loose bricks’, even at the low end segments of the market, often perceived as not profitable, or insignificant.

The term is used to describe a market segment that can be attacked, forcing a competitor to retreat or abandon.

The Chinese, he explains, have been very good at finding loose bricks in the defensive walls of existing companies.

“There are lots of things that your company probably doesn’t think is an important segment but it provides a loose brick for the Chinese company to take, and once they have that, they can grow and expand. So be careful of your loose bricks.”