



# Facing emerging competition: the wagon dilemma

## What we don't understand about emerging competition tempts motion in two possible directions – only one of which takes us forward

There has been considerable press of late about heightened international competition – some well grounded in the truth, some stretching truth into hyperbole, some abandoning the truth entirely in favour of the fanciful. So now more than ever, I have been asked about this new spectre of foreign competition. Typically, the inquiry goes something like this: "It's hard enough with our own competitors; how can we compete with Asian companies, especially the ones from China, in terms of sheer numbers? How can we protect ourselves?"

### The devil you know

Clearly, the global economy is seeing emerging economies, emerging companies and emerging competition. Yet this new face of competition is just that: simply the most recent in a litany of faces parading by in the march of commerce over time. That list included (and still includes) Japan, then Taiwan, then Korea and now other countries in Asia (eg, China and India) and elsewhere. I'll also admit to being puzzled by the notion of "our own" competitors – as if, for example, a French company is somehow less threatened by native competitors in France by virtue of some patriotic bond. However, what probably distinguishes a French company from an Asian one here is familiarity. The corporate culture, the rules, the processes and even the firms are well acquainted. Somehow, a competitor that we understand (or believe we understand) seems less formidable. It's the devil you know.

### The numbers game

Well, since the question began with the numbers game, let's take a look at some of the relevant numbers and get to know this emerging competitor. According to the International Monetary Fund, within five years, continental Asia is expected to account for roughly 30% of global output, representing a GDP growth of about 50% (purchasing power parity). The aggregate

nominal GDP of the largest Asian economies (China, Japan, Taiwan, Korea and Singapore) borders on 85% of that of the United States and is expected to reach 95% in only two years. In terms of how that economic power is being focused, Japan, Korea, Taiwan and Singapore dedicate some of the highest percentages of GDP to R&D in the world – Japan and Korea both north of 3%. Not to be outdone, China (at about 1.5%) plans to accelerate R&D spending in hot pursuit. Over the past four years, the highest-volume patenting countries have been flat or declining. China, steadily increasing its filings, stands as the lone exception. So it seems clear that Asian competition, any way you slice it, is trending up. Though admittedly, some countries are trending (and catching more attention) than others.

### Poster child, problem child?

As China recently eclipsed a stalled Japan as the world's second largest economy, the resulting alarmist sentiment firmly positioned it as the poster child for "foreign competition". China recently amplified these competitive sensitivities by introducing the Indigenous Innovation and Procurement Policy, a series of interlocking policies directed at enhancing the Chinese economy. Of all its provisions, re-innovation has probably garnered the lion's share of attention – most of it decidedly negative. Pejoratively referred to as technology assimilation, it establishes a pay-to-play approach to Chinese markets. If you introduce products into the Chinese market, the *quid pro quo* is some flavour of Chinese technology access.

As an emerging competitive force, China clearly presents some new and serious challenges. What is not clear, for now, is the extent to which the poster child is also a problem child. For example, becoming the second largest economy does not necessarily translate into being the second most stable, sustainable, nimble or vibrant economy. Also, the much-derided Indigenous Innovation Policy includes things such as preferential procurement government policies. It is difficult to name, or even imagine, a country that doesn't favour domestic companies in

government procurement. It may be anti-competitive, but then, aren't we all?

### The wagon dilemma

Nature abhors a vacuum, but not so much, it appears, as does commerce. Fear and foreboding expand to fill any open space like a noxious gas, and nowhere more readily than into a void of understanding. There's a very real temptation, in such circumstances, to pull back, solidify your position and protect it – to circle the wagons, as they say. This is particularly true when there is an apparent advantage to protect. To me, this is a classic competitive mistake – from a micro-economic operational perspective and also in terms of macro-economic policy. Protectionism is almost always a signal of retreat and an antecedent to defeat.

There is a great deal that we don't yet know about the long-term competitive implications of emerging nations, China principal among them. However, the more we learn about this new competitive environment, the better able we are to navigate the obstacles. Apparent barriers such as assimilation can also suggest economic opportunities (eg, manifest Chinese technology needs). For now, western firms generally have an advantage to play to in meeting that market demand. And understanding the constraints of policies such as Indigenous Innovation allows us to structure novel business models and compensatory IP strategies, such as foundational IP positions and insular (and insulating) verticals on top of them. With the obstacles understood and bridged, we can get past the hyperbole and focus on the relentless pursuit of advantage, not the desperate search for shelter. Competition – fair or otherwise – is a fact of life. Advantage atrophies. We don't need to circle our wagons in retreat; we need to rally them to action and advance. Wagons Ho!

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