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Innovators avoid the copyright risk

A big worry for many western and Japanese manufacturers in China is that their technical secrets developed in other parts of the world might be copied by China-based rivals. That prompts companies to hold back from making their most advanced products in China or putting a big engineering development effort into the country. The inhibitions linger on in spite of reforms over the level of intellectual property protection in China, many of them linked to the country's 2001 accession to the World Trade Organisation.

Nichicon, a Japan-based maker of electronic capacitors, is one. It refuses to site in China a top-secret production process for refining the aluminium foil used in these devices – even though by having its Chinese plants import the foil from Japan, where the process features in several of the company's home-based plants, costs of its Chinese production are significantly increased. "This technology is important to us," says Kazuo Nakamura, deputy director at Nichicon's plant in Wuxi, near Nanjing. "By keeping the process in Japan we feel we can protect it better."

Some multinationals are, however, finding different and creative ways to get around the problem. Trumpf of Germany, one of the world's two biggest makers of machine tools, is for instance setting up in China not one but three plants to make some of its top-of-the-range laser-cutting equipment. "We feel that if we split up our parts production and manufacturing processes in three centres around China rather than put them all in one place, it will be harder for competitors to find out about them and replicate our technical concepts," says Nicola Kammüller-Leibinger, Trumpf's president.

According to Charles Ingram, managing director of the Chinese operations of

JCB, the UK construction equipment maker, many Chinese companies are "desperate" to increase the technical sophistication of their products. But the way most of them go about this, he adds, is not by stealing other companies' designs but through alliances with those western businesses commonly regarded as leaders in technology and design. Partnerships of this kind feature in many areas of Chinese manufacturing, including in construction machines.

David Michael, head of the China practice at Boston Consulting Group, says that although the fear of copying is a legitimate concern for many companies, often the best way to confront this is to "participate fully" in developing products in China, coupled with a policy of robustly defending legal rights over intellectual property when it appears copying has taken place.

Falling to engage in product and process development in China because of the worry about violations of intellectual property is not the way to proceed, says Mr Michael. "For many companies it is vital to be present in China, not just in sales but in engineering development. If they do not do this, they will find their global competitiveness is affected."



Three plants: Trumpf's Nicola Kammüller-Leibinger
Martin Storz