

This Quarter

Innovation from Asia

The threat of competition from Asia worries Western executives in nearly every product and service industry. The chief concern for many is the impact of low-cost Chinese manufacturing and Indian services on global pricing. Focusing on this concern alone represents a profound misunderstanding of the nature of the competitive threat.

As this issue of *The McKinsey Quarterly* makes clear, Asia is no longer merely a source of comparative advantage based on low-cost labor; it is fast becoming a source of competitive advantage based on management innovation. The implication is clear: Asia can now compete on much more than price.

Emerging markets might seem an implausible wellspring of innovation. Certainly, most of their companies must overcome significant obstacles to threaten those in developed ones. Yet the challenges of serving the developing world's harder-to-reach, more cost-conscious consumers—who are also typically less loyal to established brands—can force companies to design and deliver products comparable to the offerings of developed nations for as little as one-fifth the price. Doing so requires big changes to the design of products and processes, and these changes may soon affect developed markets dramatically.

In “Innovation blowback: Disruptive management practices from Asia,” John Seely Brown and John Hagel III describe how companies are learning to innovate by serving low-income consumers in the developing world.

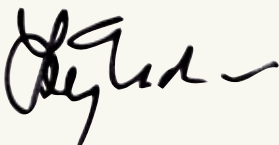
Many Western corporations, the authors suggest, will need to immerse themselves in it both to gain cost advantages and to build the capabilities they will ultimately need to compete at home.

These innovations, and the forces giving rise to them, are an essential component of increasingly intense global competition. As the latest installment of The McKinsey Global Survey of Business Executives makes clear, companies now face greater competition and pricing pressure than ever—and expect even more in the coming year.

In “Extreme competition,” William I. Huyett and S. Patrick Viguerie describe the difficulties and opportunities of this environment, in which an oversupply of labor, infrastructure, production, and capital has weakened the performance of whole industries while helping upstarts to challenge established positions in global markets. The article urges companies to increase their organizational metabolism, cut their losses early, and focus on strategic flexibility.

Although some business leaders underestimate the threat posed by competition from emerging markets, many policy makers, under pressure to protect domestic jobs, are overestimating it. In “Don’t blame trade for US job losses,” Martin Neil Baily and Robert Z. Lawrence explain that protectionism is misguided because trade and offshoring account for only a small fraction of the jobs lost during the past few years.

The emergence of developing markets as seedbeds of innovation is a profound and unsettling change for leaders in the developed world. The best response—for companies and countries alike—is to embrace this shift with the flexibility, the speed, and the openness to new ideas that accompany a truly global perspective.



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