

Industry Week

Don't Be Surprised by Innovation from China in 2014

U.S. manufacturers are gearing up for a big year in 2014. Growth is returning, and most companies are cautiously adding capacity and labor. Some companies are re-activating five-year old plans mothballed during the recession, while others are making more dramatic changes like re-shoring production to the U.S. because of cost inflation in emerging markets. The largest risk to U.S. manufacturers today is that they deploy their plans without paying enough attention to how global manufacturing has changed, particularly in China.

Globalization has become an immutable fact of business, and today it is more alive than ever and evolving fast. Yes, costs have risen in China and elsewhere along with middle class ambitions -- but companies have been responding by moving, shifting, and creating. The shoes now too expensive to produce in China are being made in Sri Lanka; the airplane formerly made in a few plants worldwide is now network-manufactured across a dozen sites in a dozen countries.

China, via the huge companies the nation directs, is pivoting toward invention and greater quality and away from production in order to increase its competitive advantage. This new "double-threat" of superior production and superior innovation, forecast long ago but doubted by outsiders, now appears to be reaching a turning point.

Companies as diverse as Huawei, Haier, Lenovo, and Tencent are increasingly dominating their categories not because of cost advantages but because of R&D, design, and new-standard-setting products. Invention policies put into place a decade ago are now creating massive numbers of new patent applications, and even though the majority does not yet show profound innovation, the likelihood of true breakthroughs is fast approaching. China's push into space is further energizing the nation and congealing its commitment to science and technology just as the NASA program did for the U.S. in the sixties and seventies.

U.S. firms should not be surprised to see Chinese competitors strive for higher quality and unique design in 2014. Chinese companies are deftly adapting foreign technologies and business models to the Chinese marketplace and rapidly leveraging these experiences into new variations. These companies have also absorbed process technology more completely than most imagined possible, as demonstrated by the nearly labor-less auto plants now operating in China. The nation's quest for so-called indigenous innovation is now the new mantra of China - and should be a siren call to U.S. manufacturers to avoid complacency. Time to fasten the chinstrap - collision ahead.

Tom Manning, Affiliate Partner, [Waterstone Management Group](#)