Universiti Brunei-ERIA-Harvard Symposium
"Supporting Industry, SME policy and Innovation"

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The world economy is recovering steadily from the Lehman Crisis. Now, in a switch from China, the US is once again playing the role of the locomotive. With regard to emerging countries, in spite of the general slowdown, East Asian economies, especially ASEAN countries, are still maintaining rapid growth, and increasing their share in world GDP.

Japan has played a unique role in the development of the ASEAN economy. After the Plaza Accord, Japanese assembly manufactures, such as electronics companies, motorcycle and automobile giants, diversified their production base. This provided growth opportunities to ASEAN. This trend accelerated after another sharp Yen appreciation in the mid 90's. The diversity of member countries and steady moves towards single markets helped ASEAN become the supply chain center of Japanese manufacturers. Both host countries and Japanese manufacturers were eager to establish reliable supporting industries.

From Japanese manufacture's perspective, the development of supporting industries was essential to be competitive in global markets. From the host country perspective, the result was an upgrading of industrial structures from labor intensive ones to capital intensive ones. When host country governments formulated policies to develop supporting industries Japan's policies provided a good model of manufacturer led development.

One of the reasons for Japan's manufacturing competitiveness was its success in building up competitive supporting industries through the cooperation of Japanese manufacturers and the Japanese government.

Key characteristics of Japan's policy were the emphasis on technology development, information dissimilation through compiling various "visions," controlled competition policy, and a unique combination of sector specific policies and more general SME development policies.

So, policy cooperation started between host countries and Japan.

The central part of policy cooperation is SME policy. It is widely recognized that the handicap of SME's in accessing information and information asymmetry requires some kind of government intervention.

The most important and effective measures in SME policy are facilitating access to financial resources. In developing countries, banks, not financial markets, play a central role. However, a bank's ability to select sound and promising SMEs is limited, and many promising firms without collateral cannot get necessary financing. A Public Guarantee Corporation and Government Bank can play a supplementary role. If rational management practices and bookkeeping become common in the SME community, the burden on banks can be eased and larger numbers of promising SMEs can get access to financial resources. This process can be more effective if extensive cooperation exists between financial institutions and foreign assembly manufacturers.

Another important area is upgrading technological levels. High level technology training opportunities are essential for companies which pursue higher levels of quality, cost minimization and delivery efficiency. The provision of technology development grants, under strict conditions of transparency and result-oriented measures, will facilitate the development of competent companies.

Many ASEAN countries tried to learn from Japan's experiences. Some countries picked up pieces of individual policies, and some tried to utilize them more comprehensively. Thailand introduced a comprehensive SME & supporting industry development plan following the Mizutani Report in 1999. There were several similar attempts in other countries. Thailand, because of timing and preparation, appears to be most successful in developing supporting industries even though its policy contents are essentially similar to those of others. Measures include establishing a Public Guarantee Corporation and a SME Bank, the introduction of a registered SME consultant system and a SME University system, the adoption of travelling technical advisors and COE of local training organization approach, and establishing a sector specific institute for supporting industries. These measures were well planned and executed considering existing institutional and infrastructural challenges Thailand faced at that time. Within ASEAN, differences in levels of accumulation and the nature of challenges for the development of supporting industries require different approaches from country to country. The development of supporting industries with Japanese companies will continue to be an effective path for ASEAN countries to upgrade their economies.

In spite of the successful growth strategies of ASEAN, it is now reaching the crossroad between the middle income trap or a higher stage of development. The increasing share of ASEAN's global GDP requires ASEAN to go one more step; a higher share of consumer spending on the demand side and innovative capabilities on the supply side. However, shifting a national economy towards innovation is not simply an extension of the catching up process. This is a process of identifying, connecting and solving challenges in a variety of technologies. Japanese economic development history may be of some use again.

Japan demonstrated her ability as an innovative economy in the late 70's. She succeeded in establishing a computer industry. Japan has also succeeded in developing many energy efficient technologies. Different from previously dominating central laboratories of big corporations such as IBM or ATT and military labs, Japan adopted a new method of public-private consortiums. Japanese consortiums found a new solution by fusing knowhow and technology from various sources. Japan further combined semiconductor technology with machinery industry technology to produce ultra precision machining tools, which resulted in a prevailing market share in such high-tech products globally. Likewise a series of process innovations and product innovations resulted in a series of energy efficient technologies for the manufacturing sectors.

However, the globalized economy and the development of the internet have changed the speed and complexity of innovation. Now "open innovation" prevails. This new environment requires many different talents to interact before innovation is realized. An innovative economy needs a flexible system to successfully respond to the increasing speed, diversity of opportunity and uncertainty for individual entrepreneurs. The mobility of society, effective protection of intellectual property, abundant equity capital, institutions to sharpen special expertise, new assignments to the role of universities, geographical accumulation of people, knowledge and information as a cluster, and well-coordinated and transparent government are among them. In 2005, the US issued "Innovate America" and the EU followed "Creating an Innovative Europe." Japan has also produced many reports to adjust its systems to this new paradigms.

In this new environment, while Japan maintains a superiority in integral types of manufacturing such as automobiles, she has weaknesses in modular types of manufacturing and the service industry.

Shifting to an innovation oriented economy necessitates a change of SME policy. Easier establishment of SMEs as active participants in innovation processes is crucial.

Facilitating company start-ups becomes an important policy target. Simplifying procedures to start a limited liability company, the availability of equity finance to bear risks, flexible corporate structures and the availability of various talented people are examples.

The Abe government has announced its growth strategy. The main portion of the strategy revolves around "innovation." It proposes a comprehensive reform agenda to make Japan innovative. The first emphasis is on deregulation. It also tries to establish an efficient government by preventing silo behavior of bureaucracies or vested interest groups' influence. An aggressive trade policy including participation in TPP negotiation is expected to activate innovation processes too.
The healthcare sector is highlighted as one of the promising area. In spite of world class medical doctors both in scientific and clinical fields, excellent manufacturing technologies and an industry and patients who are willing to pay for better therapy, Japan is slow in introduction of new medical technologies. A lack of forseeability towards business because of uncertainty in regulatory practices, time consuming and expensive clinical research processes and unpredictable pricing regulations prevent private businesses from actively pursuing products. I would like to emphasize the desirability and probability of international cooperation which will be helped by the worldwide movement for improved health. .

In traditional manufacturing sectors, Japanese global firms are moving product development centers to host countries. It will provide opportunities for ASEAN countries to move towards an "innovation oriented economy."

These developments provide an excellent opportunity to deepen the collaboration between Japan and ASEAN countries towards an "innovation age." Collaboration in these sectors helps both the competitiveness of Japanese industry and the shift towards innovation oriented systems in host countries.