

The Importance of Fostering the Growth of Small and Medium-sized Enterprises in Asia's Market Economy

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Almost every country in both Asia and Europe is endeavoring to make its economy grow on the basis of a market economy and improve the living standards of its people. Moreover, in quite a few cases, they are making steady progress. At a meeting of ASEM, which was launched last year, government leaders of Asian and European countries agreed to strive to ensure economic progress in the two regions on the basis of a market economy. This was great news to those of us in the business world.

It is independent, free and creative entrepreneurs that support a market economy. Such entrepreneurs are not limited to the executives of large business corporations. On the contrary, true entrepreneurship can be found in the executives of small and medium-sized enterprises (SMEs), who are not fettered by organizations like those of large business corporations, and thus can give full play to their imaginations and running their businesses with greater freedom. Such activities vitalize the economy and contribute to its progress. In this sense, it is the owners of SMEs who are shaping the foundations of a market economy.

The importance of SMEs is conspicuous also in the Japanese auto industry to which I belong. In the Japanese auto industry, final assembly is wholly done by large corporations, but the value added by them is about 30% at most, and the remaining 70% is in parts, components and materials, all supplied by external sources. In the case of materials, large corporations in such industries as steel and chemicals are suppliers in many cases, but the suppliers of parts and components are mostly SMEs. Certainly, some SMEs have

grown into large corporations, but they were mostly small in the beginning. Moreover, each supplier is supported by second- and third-tier suppliers. Their number may run to five figures.

We in large corporations alone do not constitute the Japanese auto industry: the Japanese auto industry is a multilayer pyramid consisting of a great many small and medium-size suppliers, with final assemblers at the apex. Therefore, the industry's international competitive strength does not derive from us final assemblers alone, but from all the members of the pyramid, including the many SMEs that constitute it.

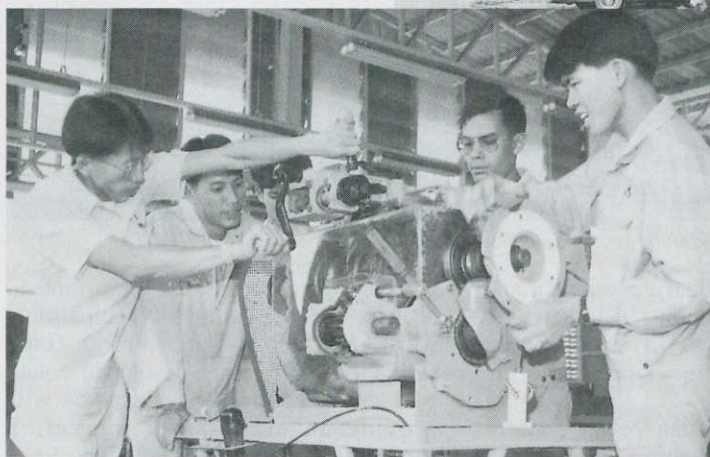
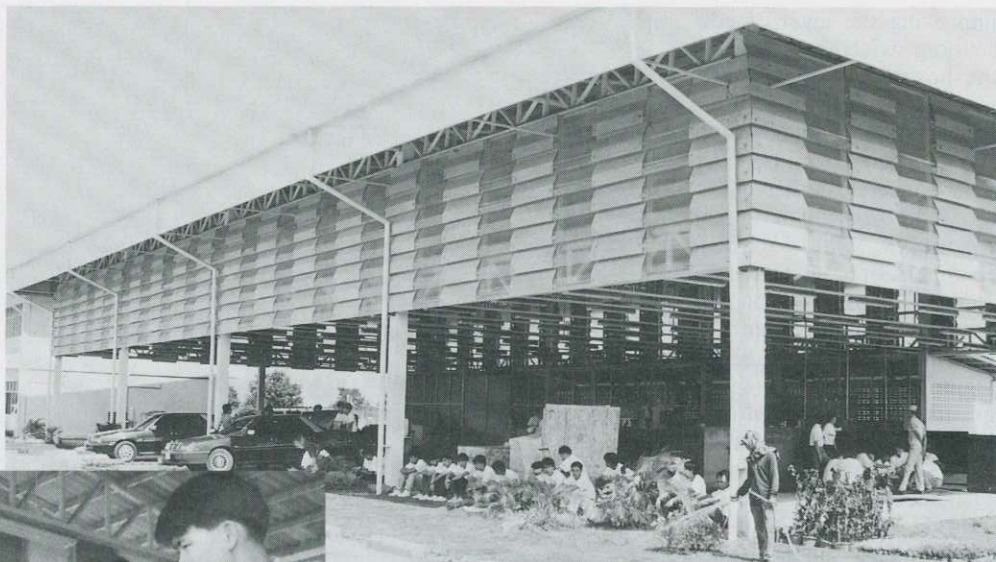
Basically, the Japanese auto industry, with such a pyramidal structure, has come about as a result of endeavors by the SMEs that belong to the pyramid and abound in entrepreneurship, and we final assemblers at the apex have positively supported their endeavors.

Let me give you an example. Mitsubishi Motors Corporation's small commercial vehicles are produced and used in large numbers in this country. Their home manufacturing plant is at Mizushima in Okayama Prefecture, Japan. One small company that supplies small pressed parts to this plant was originally a maker of brass buttons for school uniforms. Okayama Prefecture has long been known for production of school uniforms. When Mitsubishi Motors was starting assembly of automobiles at the Mizushima plant, the company decided to farm out production of pressed small auto parts and eyed this brass button manufacturer. We asked the company to improve its press processing technology, learn the technology for press-processing auto parts and undertake the production of

pressed auto parts for us. The executives of the button company were positive people. With an entrepreneurial spirit, they complied with our requests, and we extended all necessary technical assistance to them. This company grew and is now an indispensable parts supplier for our Mizushima plant.

Joining strength with other SMEs is another way for a small or medium-size company to bolster its competitive strength. The said button maker has developed an industrial complex jointly with about 20 other SMEs that supply parts to our Mizushima plant. Each of them has constructed a factory there, but they are cutting indirect expenditures by jointly operating electric power receiving facilities, an independent power plant, a waste water disposal plant and welfare facilities, and are making a great contribution to the competitiveness of our products.

Automobiles are produced in Asian countries, including here in Indonesia. In order that their products may attain real international competitiveness, however, a great many suppliers that supply internationally competitive parts must exist. Regrettably, however, at present, the number of such suppliers is insufficient. Several Japanese parts manufacturers have invested in these countries, but it is impossible for them to supply all necessary auto parts, which are so diverse that they come in several tens of thousands of kinds. As already said, the auto industry is a multilayer pyramid including secondary and tertiary layers. But it is totally impossible to meet the financial needs of all the layers in the pyramid with external investment. Regional companies, most of which are probably SMEs, must take part. I very much



The "flying geese" of skilled laborers: Mitsubishi Motors Corporation's technology transfer encompasses a training school in Thailand

hope that many such companies will announce their intention to do so.

According to one forecast, total demand for automobiles in Asia and ASEAN in 2000 will rise to somewhere between 15 million and 16 million units and equal demand in North America and the EU. The auto industry is one where economies of scale are clear to see. In this sense, the auto parts industries in Asia and ASEAN have a great future. A total of 365 Japanese auto parts manufacturers are already producing in the Asia and ASEAN region, and 377 are helping Asian and ASEAN countries produce parts domestically by means of technical assistance. Even as a group, however, they are too small to form the auto industry pyramid of staggering size that Asia is expected to develop hereafter. All the more for this

reason, Asia offers attractive business opportunities to Asian and non-Asian entrepreneurs, specifically SMEs. Also, to make it grow, a reduction of tariffs within the ASEAN region under the ASEAN Industrial Cooperation Scheme (AICO Scheme) will furnish a greater market to SMEs in the region and help them expand the scale of their production, lower their costs and bolster their competitiveness. We also want to assist SMEs in the region in exporting their products.

SMEs abound in entrepreneurship and have the ability to engage in business activities without external help if there are opportunities available, but may be placed at a disadvantage at times because they are small-scale. In a developing economy in particular, if SMEs are not strong enough, I think

the government as well as large corporations that conduct business with them should take steps in such areas as finance, taxation, information and technical guidance to promote their growth. The said joint project set up by the suppliers to our Mizushima plant has succeeded thanks to the various measures taken by the Japanese government to help SMEs. In the process through which the Japanese auto industry acquired the competitiveness it now possesses, measures taken by the government to foster its growth were not directed to us final assemblers, but were aimed at bolstering the competitiveness of the auto parts industries which are, in the main, SMEs.

For SMEs to progress, it is important to train high-quality engineers and secure able workers. In this regard,

improving the level of education provided by schools is the business of the government of every country. In Japan, industry has grown and prospered because business corporations have fostered the growth of human resources. The Japanese chambers of commerce and industry, Japanese manufacturing companies, etc., in various parts of the ASEAN region sponsor training programs. Mitsubishi Motors accepts trainees in Japan and has established a school in Thailand, which accepts students from Mitsubishi Motor's Thai subsidiary and its allied auto parts manufacturers in Thailand and educates them. This takes much time and costs a good deal of money, but I think it represents a worthwhile method of technology transfer.

On the trade policy side as well, it is important to pay heed to fostering the growth of SMEs. Trade liberalization is progressing at a faster speed than expected, but a balance between the speed of liberalization and international competitiveness, such as product prices, product quality, and delivery terms at SMEs should be ensured. If liberalization is carried out at an excessive speed, investment made so far will prove to be a waste, and technologies that are taking root in the recipient country may fail to grow and wither

away. To prevent that, government and business should combine their strength and foster the growth of SMEs so that domestic production can accelerate quickly.

We as people of an Asian country sincerely hope that various manufacturing industries in all of Asia will grow vigorously through the activities of dynamic SMEs.

Some people may have concerns that the growth of industry in Asia will intensify international competition for advanced industrialized countries and cause a hollowing-out of their industry.

I think such concerns are unwarranted, because the escalation of competition which will result—that is, mega-competition—should make developed countries stronger, and a growing Asia will provide an even larger market. I strongly hope that the people who have gathered here today share my views and will make efforts, in their respective positions, to promote the sound growth of SMEs in this region. ■

Nakamura Hirokazu is Chairman of the Board of Mitsubishi Motors Corporation.



Another initiative: Business leaders drive ASEM at the Asia-Europe Business Conference in Jakarta

ASEM member countries

Asian side

Thailand, Indonesia, Philippines, Malaysia, Singapore, Brunei, Vietnam, Japan, China and South Korea (10 countries)

European side

U.K., France, Germany, Netherlands, Belgium, Luxembourg, Italy, Greece, Denmark, Spain, Portugal, Ireland, Finland, Sweden, Austria (15 countries) and the European Commission