
SMEs and national
economic development –
seeing the big picture
and what happens
within

REDDAL

**APEC Public-Private Dialogue on Science,
Technology and Innovation: Capitalize on
Research and Development**

Kuala Lumpur, February 12, 2020

Key messages

Understanding the drivers of national economic growth – the role of population, productivity and export

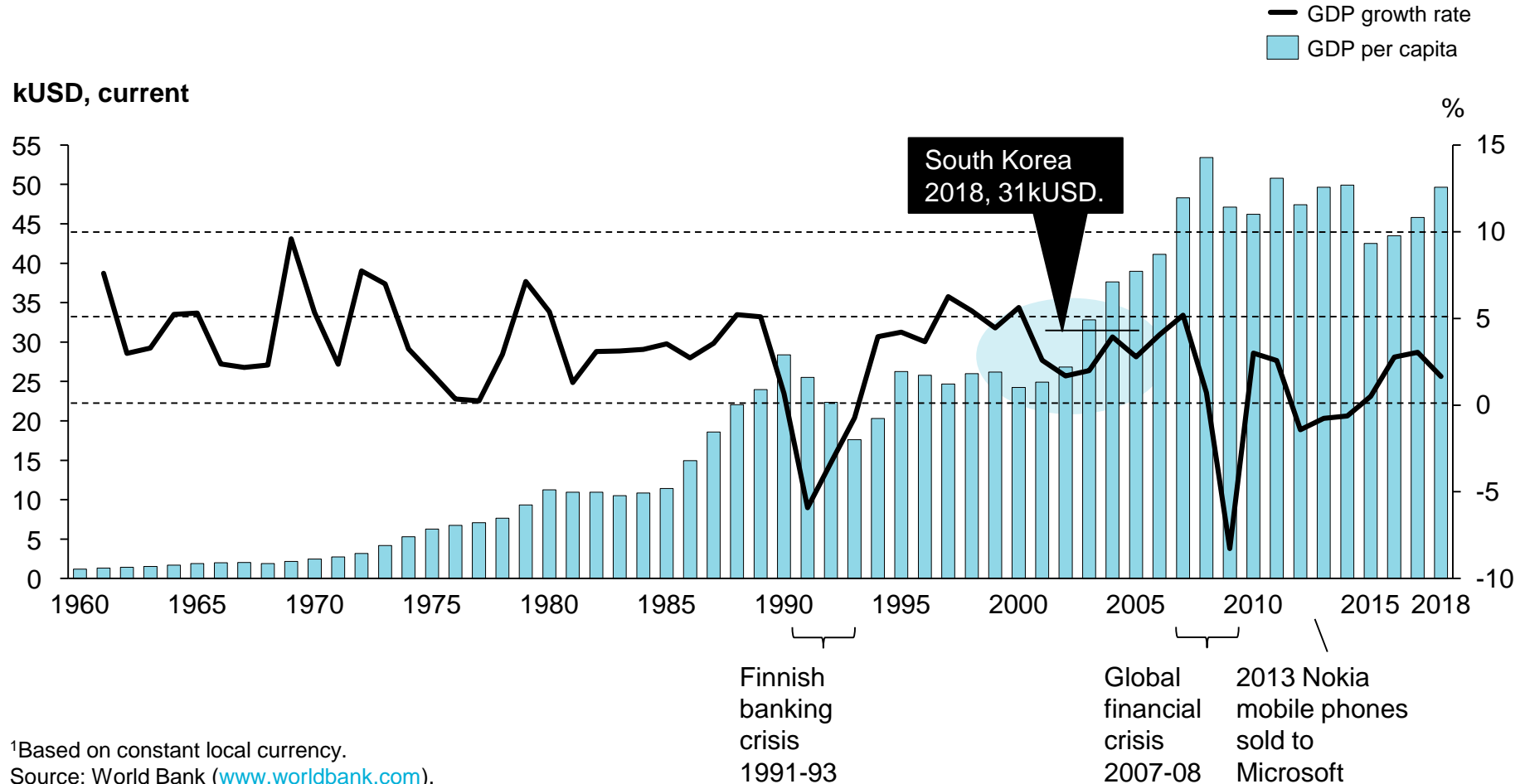
The role of national policy – development paths of South Korea and Vietnam have ups but also downs

From a vicious to virtuous cycle – encouraging SME stories illustrate the importance of own R&D and branding for a global market

The role of a policy ecosystem – need to cover end-to-end, rather than just focusing on one part of the development journey

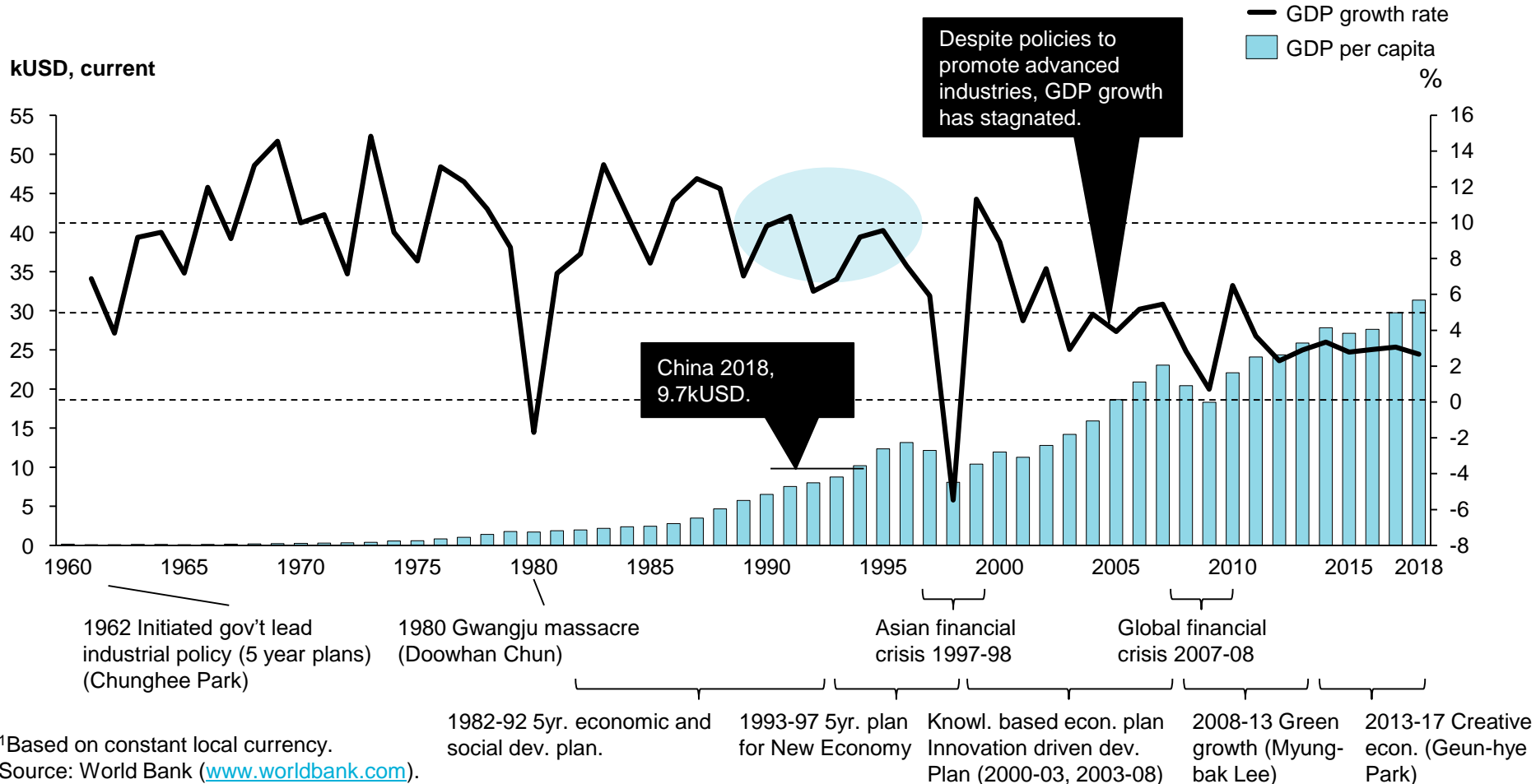
Finland, as a sample Western country, is showing signs of stagnation

GDP growth rate¹ and GDP per capita – Finland (1960 - 2018)



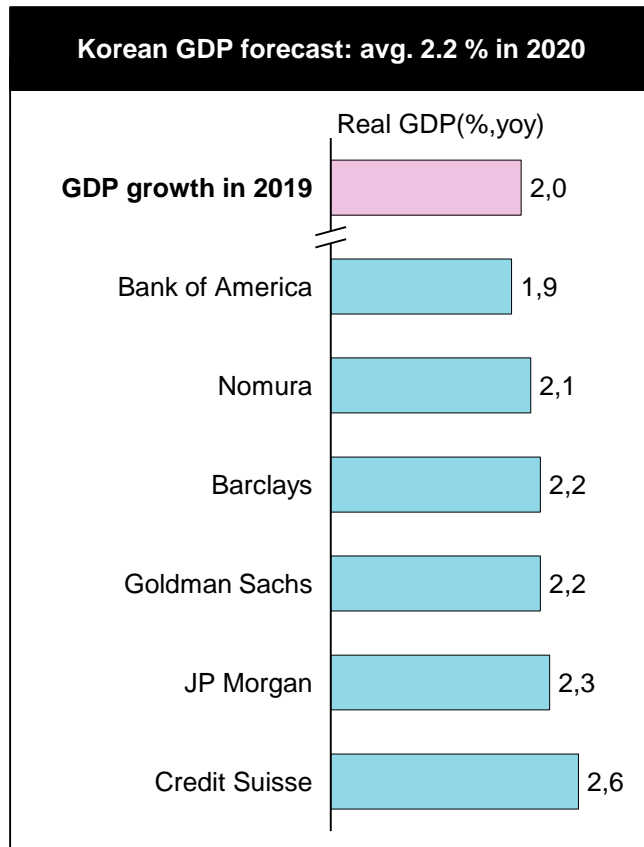
South Korean growth is today not what it used to be – the economy is facing significant challenges

GDP growth rate¹ and GDP per capita – South Korea (1960 - 2018)



Korean GDP growth rate in 2020 is estimated at avg. 2.2% due to external and internal factors

GDP forecast – South Korea



External factors

A trade dispute between China and the US²

- Overall reliance on exports is high
 - 37.5% of GDP in 2019
- China and the US are its first and second largest export destinations
 - 28% to China and 13% to the US of the total export

Semiconductor business turnaround

- Global semiconductor business market will increase (▲5.5%)
 - S. Korea is 2nd rank in global semiconductor market share

South Korea is in a population conundrum

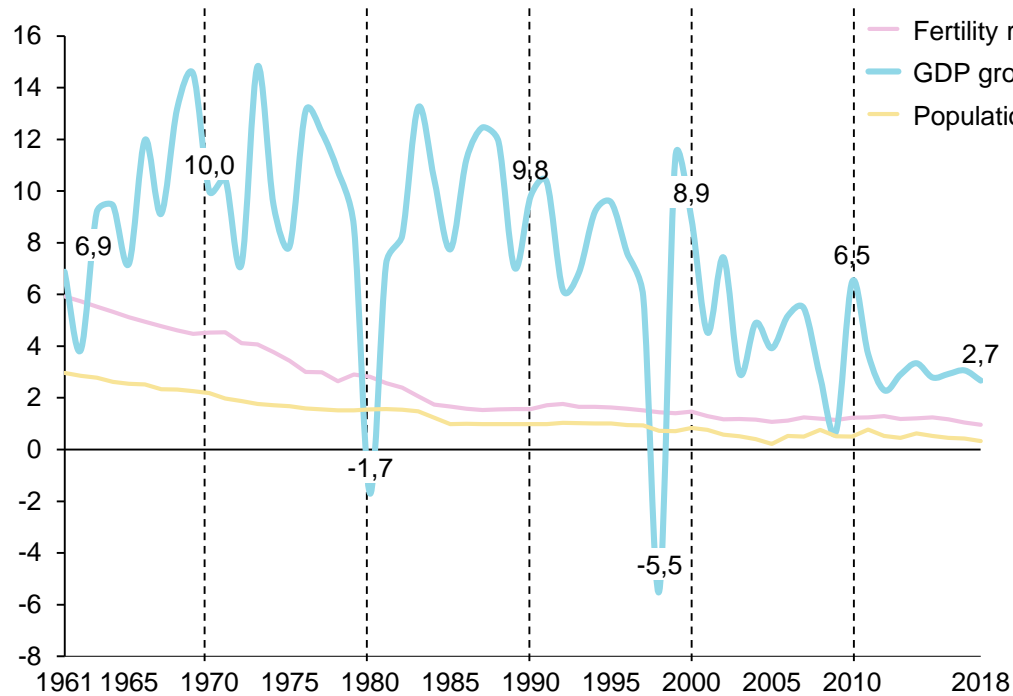
- Falling birth rates³
 - The fertility rate fell to a record low of 0.98 in 2018
- Aging population⁴
 - One of the highest life expectations (82 years) comparing to global average (72 years)
 - 15% of the S.Korean population are aged 65 or over in 2019

Internal factors

Source: International Finance Centre, Trading Economics(2018), KOISIS(2019), IHS marit; ²[Moon's New Year's Resolution for the South Korean](#), The Diplomat (2019.12.24); ³[South Korea Foreshadows a Gray, Slow-Growth Future](#), Bloomberg Opinion (2019.7.16); ⁴[South Korea's population paradox](#), South Korea is in a population conundrum, BBC (2019.10.15).

There is an increasingly active debate about the impact of a low birthrate on South Korea's GDP

The role of population on per capita GDP – South Korea



The fertility rate dropped below 3 in the 1980s.

The fertility rate dipped below 1 in 2018.

"South Korea Foreshadows a Gray, Slow-Growth Future"
Birth rates have collapsed, pointing to rapid population aging and slowing productivity.
- Bloomberg¹

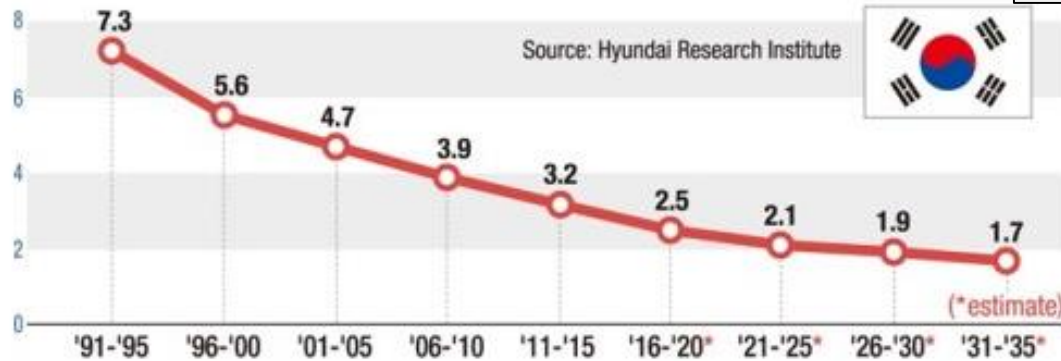
The looming demographic decline showed that South Korea's GDP is projected to increase 65% by 2040, compared with the global average of 80%. – WTO²

"South Korea finds it difficult to create an economic virtuous circle because of the low birthrate and population aging".
– Yonhap News³

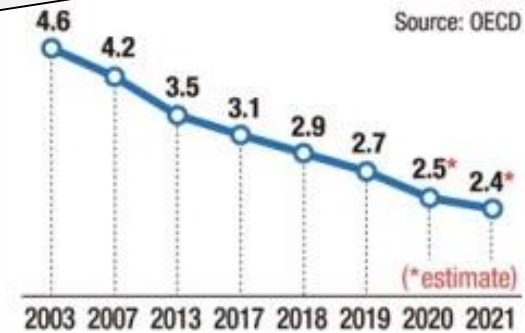
Source: World Bank national accounts data, and OECD National Accounts data files; ¹Bloomberg Opinion (2019.7.16), ²WTO report 2019, ³Yonhap News (2017.12.18).

Recent article emphasizes the challenges with a matured economy and declining workforce – private R&D in critical role

Perspectives on Korea's potential growth rate* Percent



"Korea's growth engine is losing steam, indicated by a steady decline in the potential growth rate amid a lack of innovation to offset a rapid reduction in both the workforce and capital."



"The answer lies with R&D. ... "The limitations are clear in increasing labor and capital, so R&D-driven technological innovation will define whether the country will manage to find growth."

"The country's key growth driver was and still is automobiles and semiconductors. The need is growing for a new industry to emerge as a new growth engine, but other sectors including logistics, storage, finance and insurance businesses are struggling to create high-value work in time."

"The government projects are defined more by short-term budget execution than long-term profitability and sustainability, not to mention the political intervention veering large state-funded projects off track. This undermines the private sector R&D, half of which is accounted for by Samsung Group."

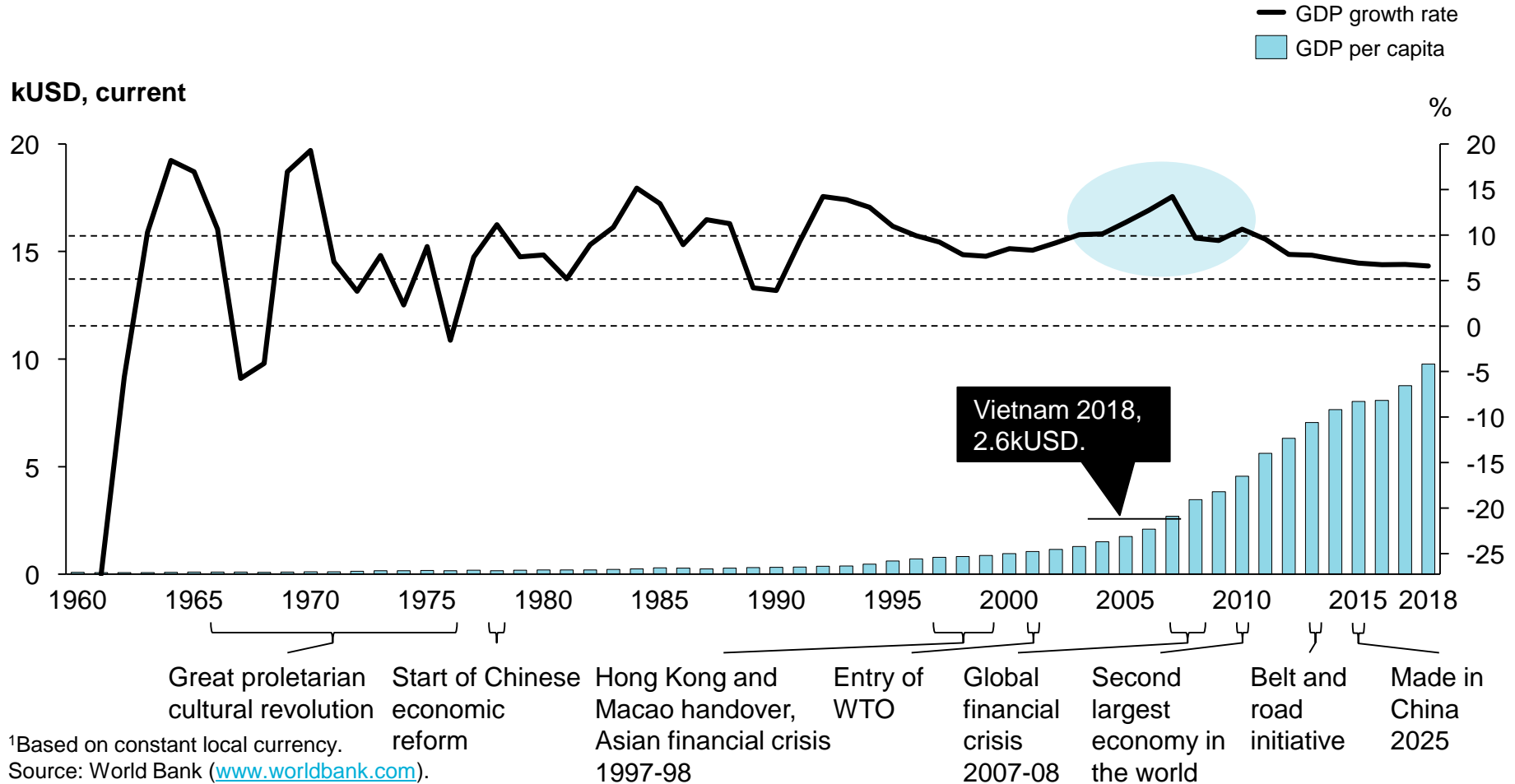
– Hyundai Research Institute (HRI) Economy Deputy Director Ju Won

*A potential growth rate refers to the maximum possible rate an economy can grow without triggering inflation.

Source: https://www.koreatimes.co.kr/www/biz/2020/02/602_282687.html

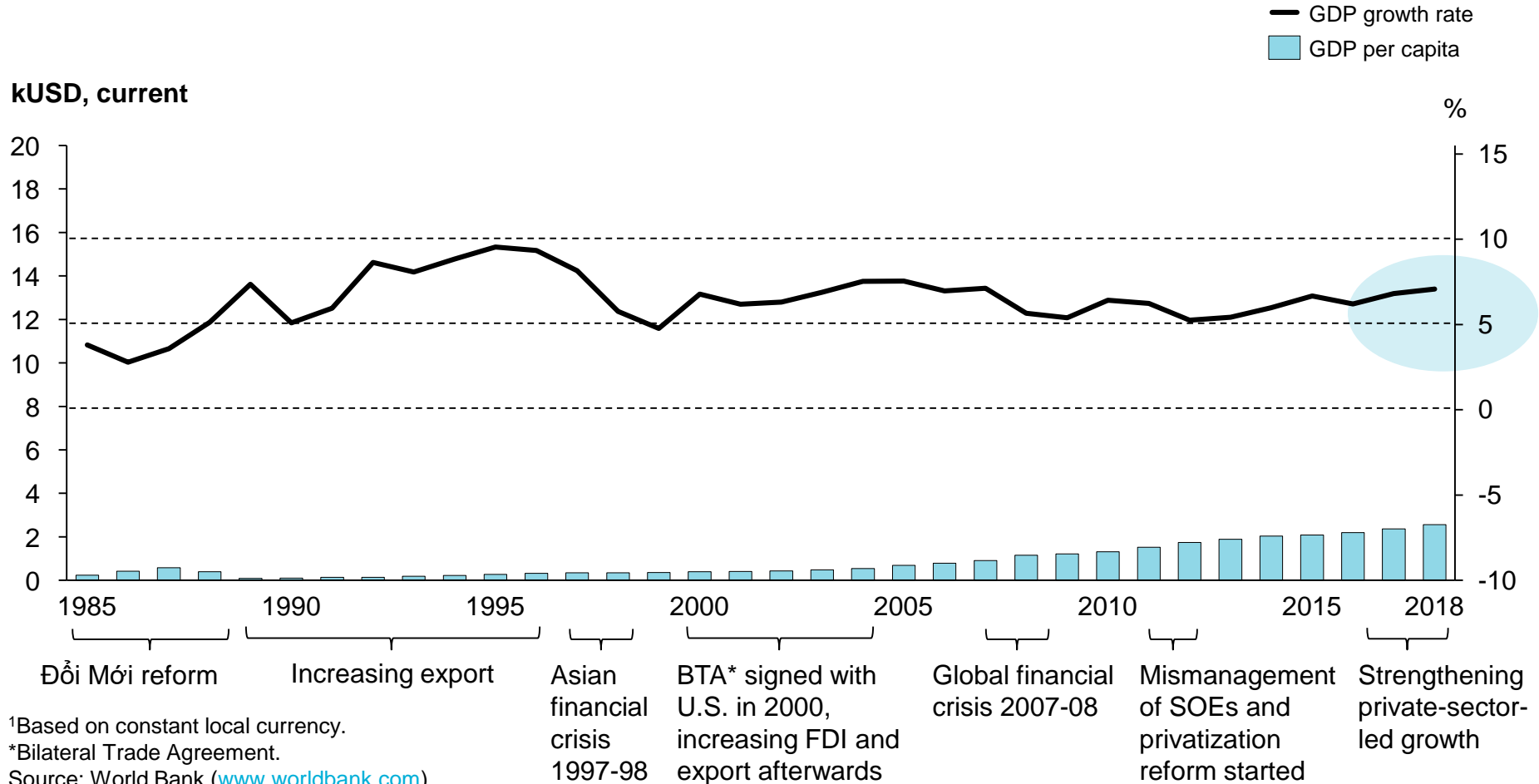
Growth in China is still good, but clearly slowing down

GDP growth rate¹ and GDP per capita – China (1960 - 2018)



Vietnam is maintaining good growth, although the level of growth is clearly lower than China and South Korea at similar stage

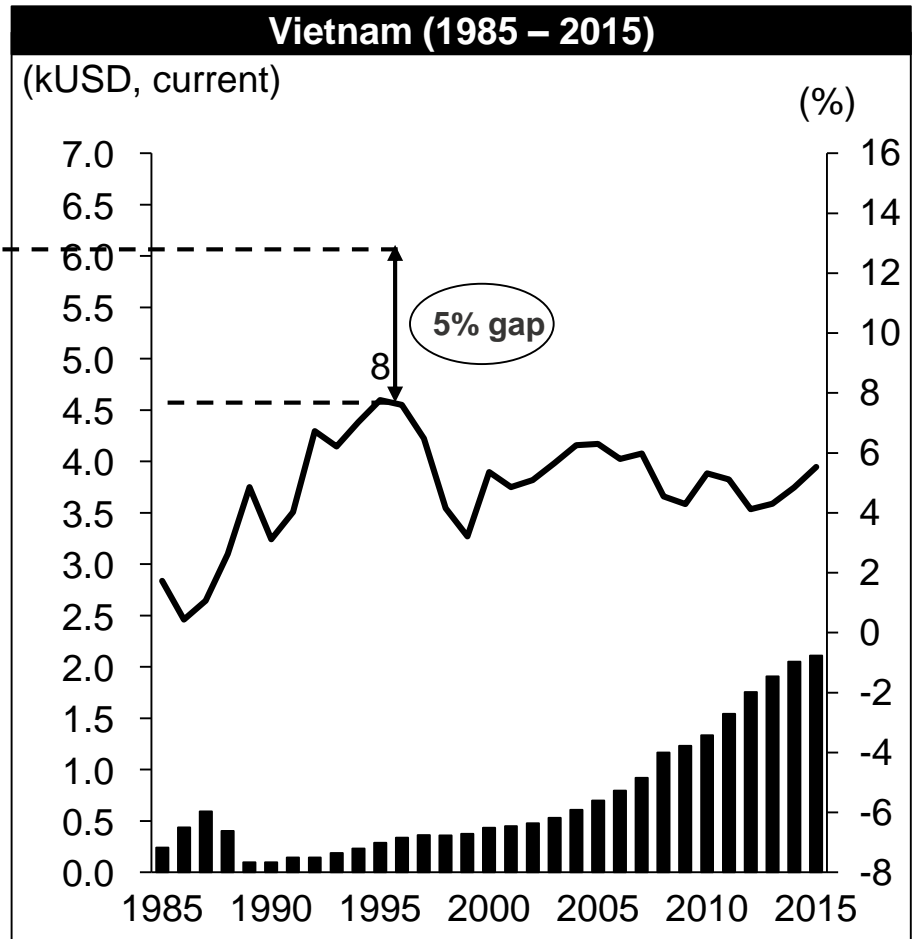
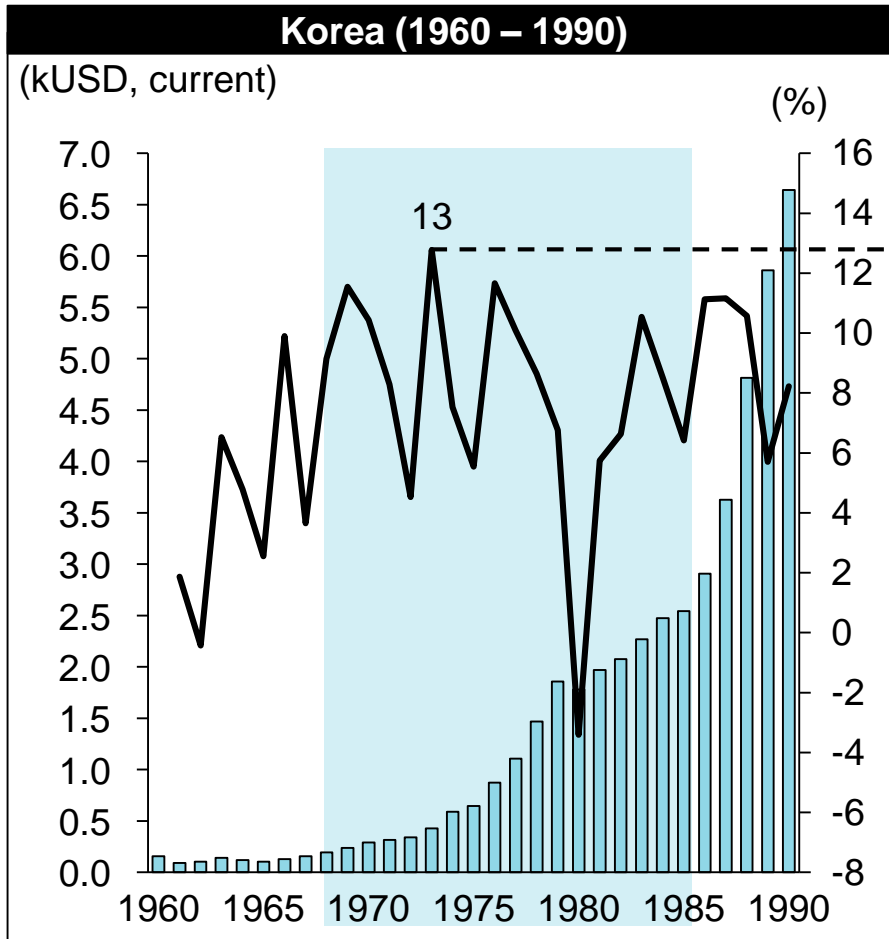
GDP growth rate¹ and GDP per capita – Vietnam (1985 - 2018)



Vietnam's recent growth has some similarities to Korea in the 70s, but with markedly lower growth rate in GDP per capita

GDP per capita and GDP per capita growth rate

— Growth rate - Korea GDP per capita - Korea
— Growth rate - Vietnam GDP per capita - Vietnam



Source: World Bank (www.worldbank.com).

Population growth is a key additive term in GDP growth – it and GDP per capita growth is shrinking in many countries

The role of population and per capita GDP in real GDP growth Percent, 1990 - 2000, 2000 - 2015

Table 5. Average Annual Percentage Growth of Population, Real Per Capita GDP, and Real GDP (2010 US\$), World Regions and Selected Countries, 1990 to 2000 and 2000 to 2015.

Region/country	Population 1990-2000	Per capita GDP 1990-2000	Real GDP 1990-2000	Population 2000-2015	Per capita GDP 2000-2015	Real GDP 2000-2015
Low-income	1.64	1.37	3.01	1.34	4.15	5.49
High-income	0.70	1.90	2.67	0.66	0.98	1.64
World	1.46	1.29	2.75	1.22	1.51	2.73
East Asia/Pacific	1.64	1.91	3.55	0.72	3.65	4.37
South Asia	2.02	2.86	4.88	1.53	5.00	6.53
Middle East/North Africa	2.14	1.08	3.22	1.97	2.13	4.10
Latin America	1.65	1.42	3.07	1.23	1.60	2.83
Sub-Saharan Africa	2.72	-0.67	2.05	2.70	2.29	4.99
North America	1.22	2.11	3.33	0.88	0.89	1.77
United States	1.20	2.18	3.38	0.86	0.90	1.76
EU	0.21	2.02	2.23	0.29	0.95	1.24
China	1.11	8.82	9.93	0.55	8.62	9.17
Brazil	1.60	0.95	2.55	1.11	1.64	2.75
India	1.90	3.54	5.44	1.46	5.47	6.93
Russia	-0.68	0.28	-0.40	-0.14	3.67	3.53
South Africa	2.29	-0.49	1.80	1.49	1.47	2.96
Japan	0.24	0.88	1.12	0.01	0.71	0.72
Germany	0.37	1.59	1.96	-0.01	1.11	1.10
France	0.33	1.75	2.08	0.63	0.45	1.08
United Kingdom	0.34	2.06	2.40	0.65	1.10	1.75
Norway	0.69	2.87	3.56	0.96	0.63	1.59
South Korea	0.89	5.44	6.33	0.54	3.32	3.86

Source. Author's calculations using World Bank (2017) data.

Note. EU = European Union.

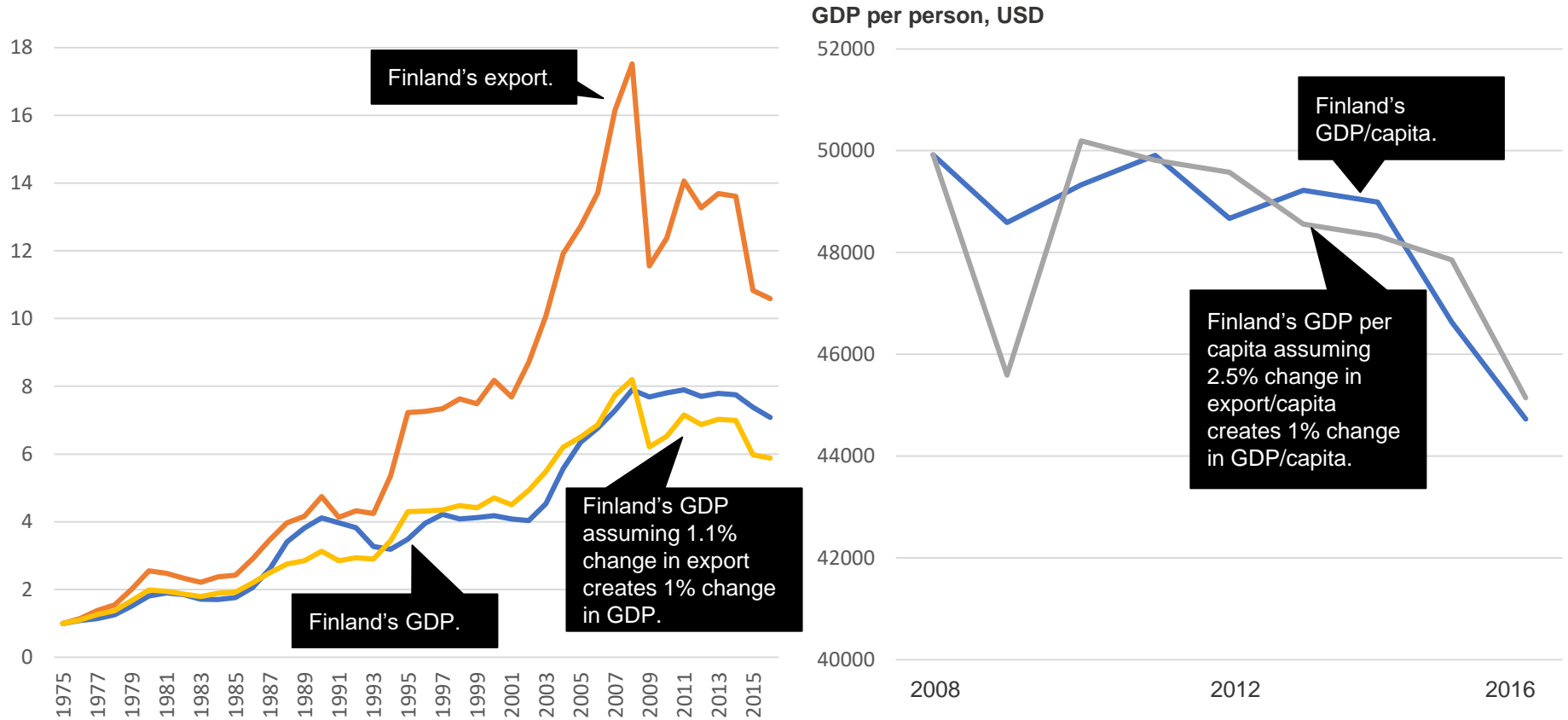
Piketty finds that global long term values are $0.8\% + 0.8\% = 1.6\%$.

Solow studied US GDP growth, and stated that about 80% was driven by innovation, and only 20% of factor inputs.

Source: Peterson, *The role of population in economic growth*, SAGE Open Oct-Dec 2017, <https://journals.sagepub.com/doi/pdf/10.1177/2158244017736094>.

Change in exports is a surprisingly accurate predictor of GDP change at least in the case of Finland

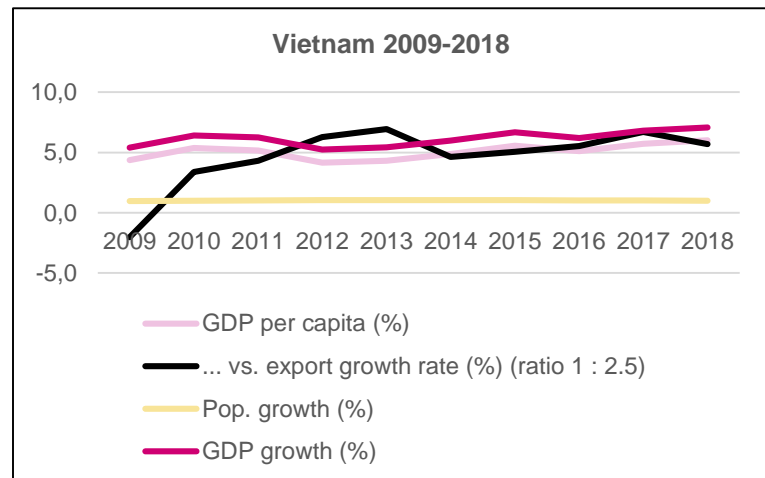
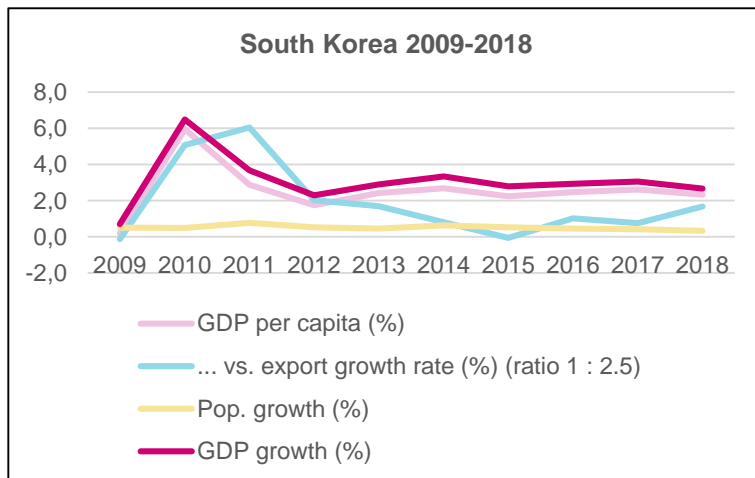
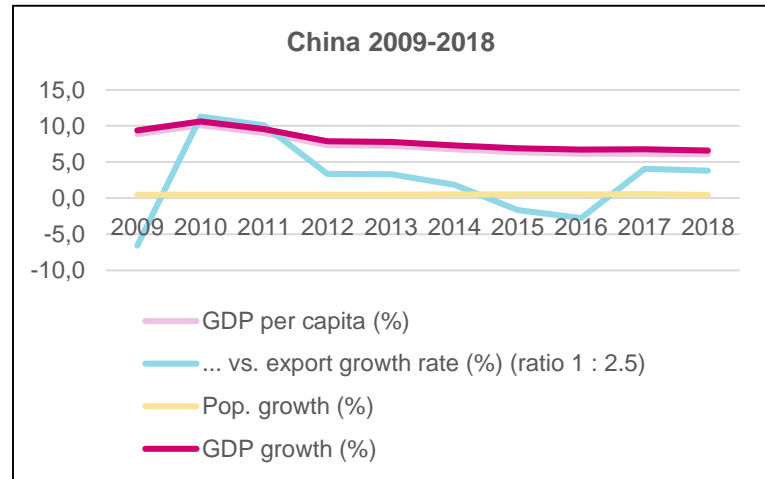
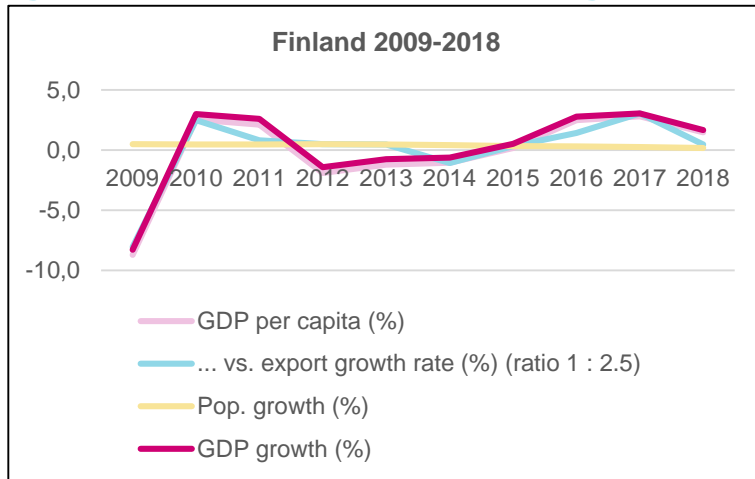
Change of GDP vs. change in exports (Finland)



Source: Eero Byckling, *Vienti vetämään – näin luomme uusia menestyviä vientituotteita* (2018).

These relationships hold well for our sample countries in general

GDP growth and GDP per capita growth vs. parameters



Key messages

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The role of national policy – development paths of South Korea and Vietnam have ups but also downs

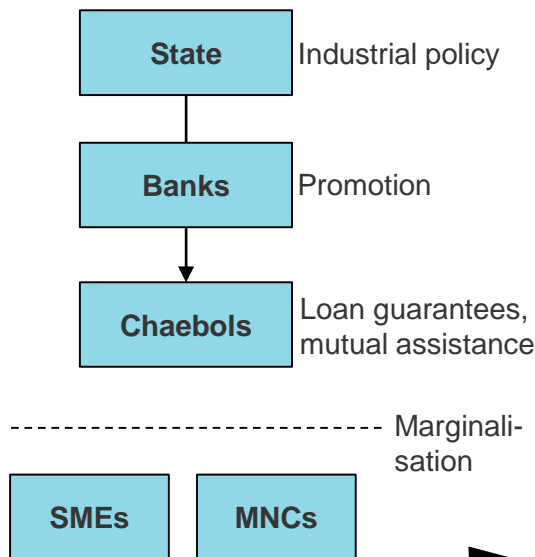
From a vicious to virtuous cycle – encouraging SME stories illustrate the importance of own R&D and branding for a global market

The role of a policy ecosystem – need to cover end-to-end, rather than just focusing on one part of the development journey

Korea pursued substitution, while Malaysia, Taiwan and Vietnam pursued complementary strategy – the choice had effects on SMEs

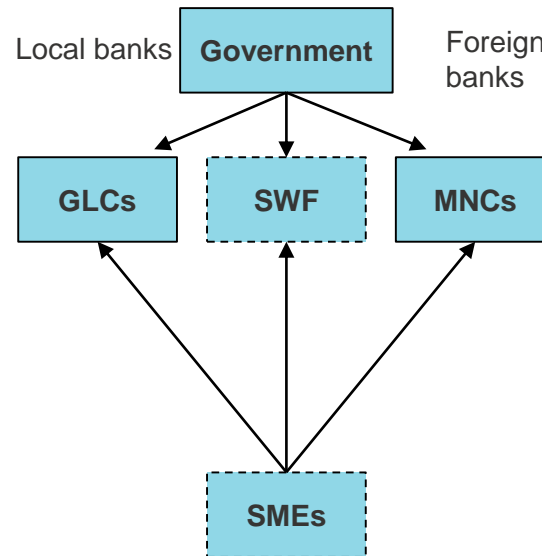
Comparison on national growth models

Korea (substitution strategy)

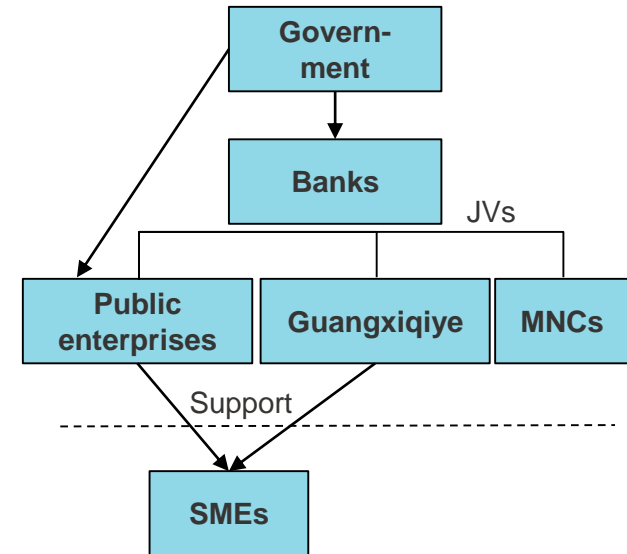


Unlike Japan, Taiwan and Singapore, Korean model required large outside financing (debt and other funding).

Singapore and Malaysia (compl. strat. – int'l model)



Taiwan and Vietnam (compl. strat. – semi-int'l model)



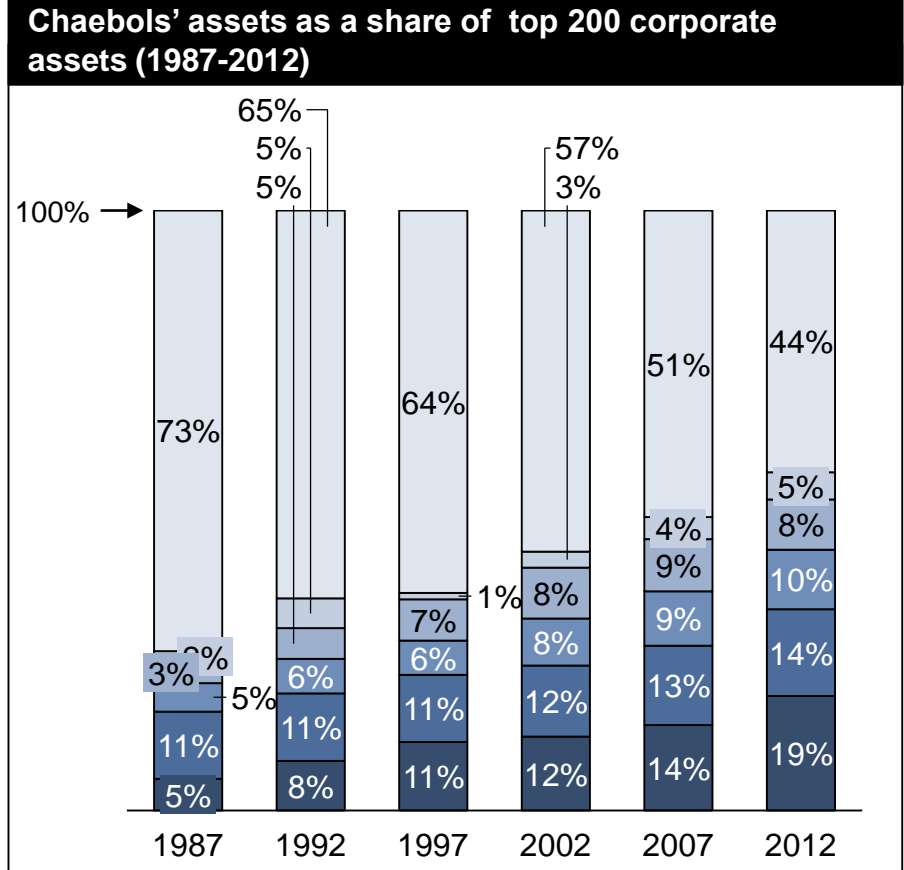
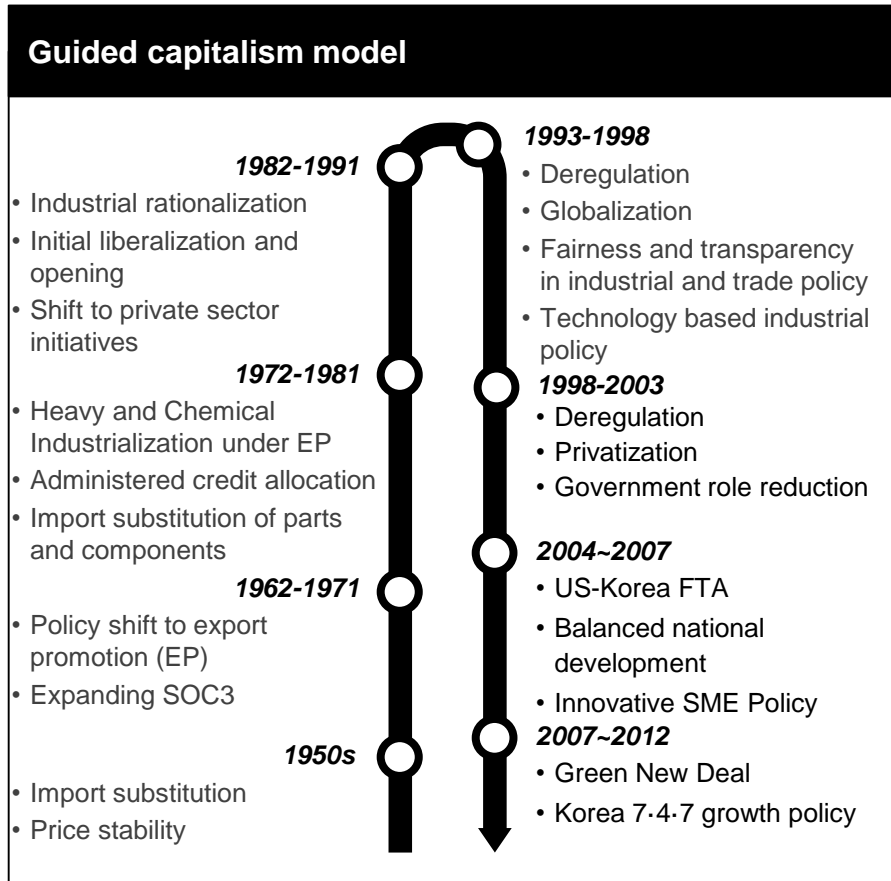
Vietnam pursues a semi-international complementary strategy similar to Taiwan, yet with emergence of local conglomerates and weaker links to SMEs.

Note: MNC = multinational company, SME = small and medium sized enterprise, GLC = government linked company, SWF = sovereign wealth fund, SOE = 100% state owned enterprise, Guangxiqiye = local business groups; China applies a modified substitution strategy, leveraging JVs to expediate tech transfer process.

Source: Shin, Chang, *Restructuring Korea Inc.*, pp. 11-22; Ha Thanh, Nguyen & Klaus Meyer (2004); Van Chung, Vu (2015); Reddal analysis.

Korea used interventionist/protectionist strategy to drive manufactured goods exports by subsidizing target industries and related chaebols

Korean growth and industrial policy

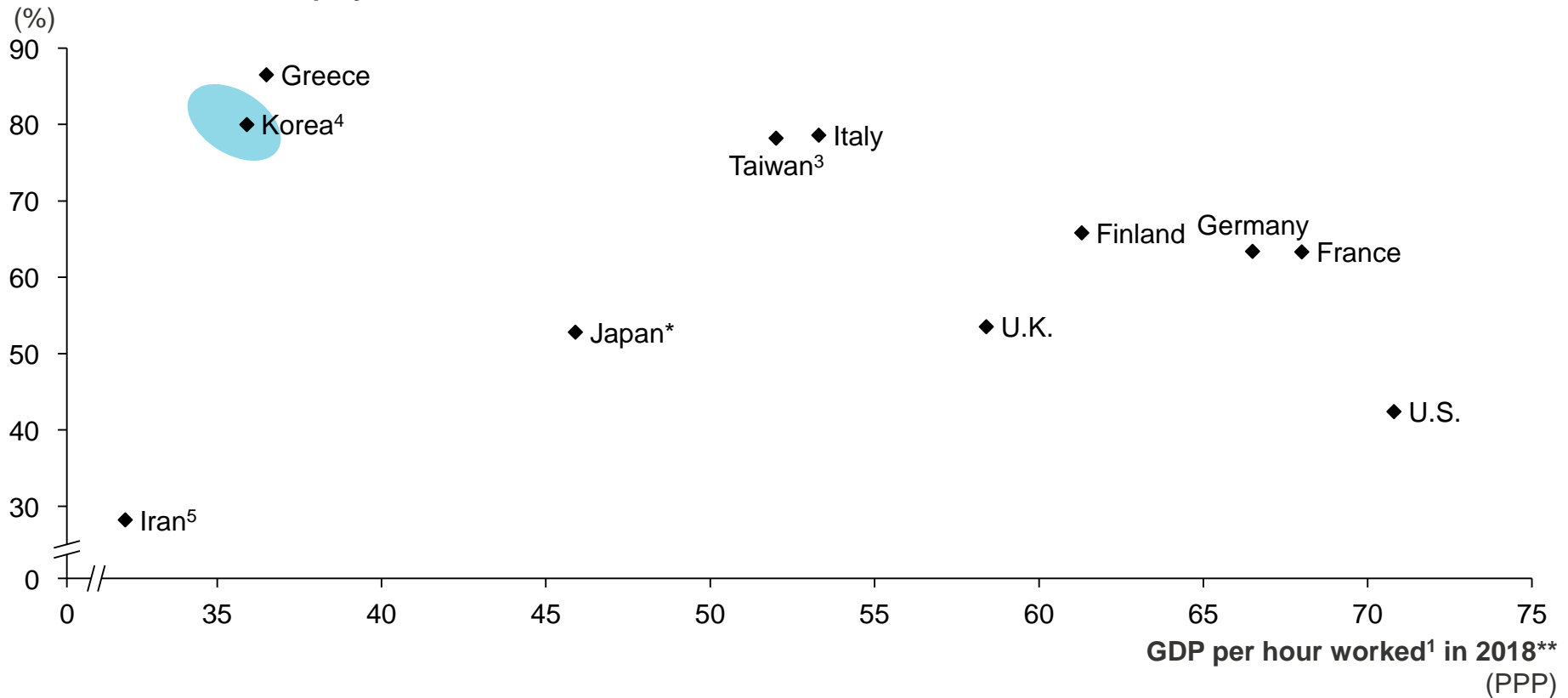


¹Includes LG, GS, LS and their affiliates; ²includes Samsung, Shinsegae, CJ and Hansol; ³Social overhead capital such as roads, schools and hospitals.
Source: ERRI, 재벌 및 대기업으로의 경제력집중과 동태적 변화분석; Ahn, The outward-looking trade policy and the industrial development of South Korea.

A burning issue of Korean economy is that the SME sector has low productivity and employs a large share of the population

SMEs contribution to overall economy by country

SMEs share of total employment² in 2016*



X: Used 2017 data for Iran/ 2015 data for Korea and U.S., and 2014 data for Taiwan and Japan. Y: Used 2017 data for Iran

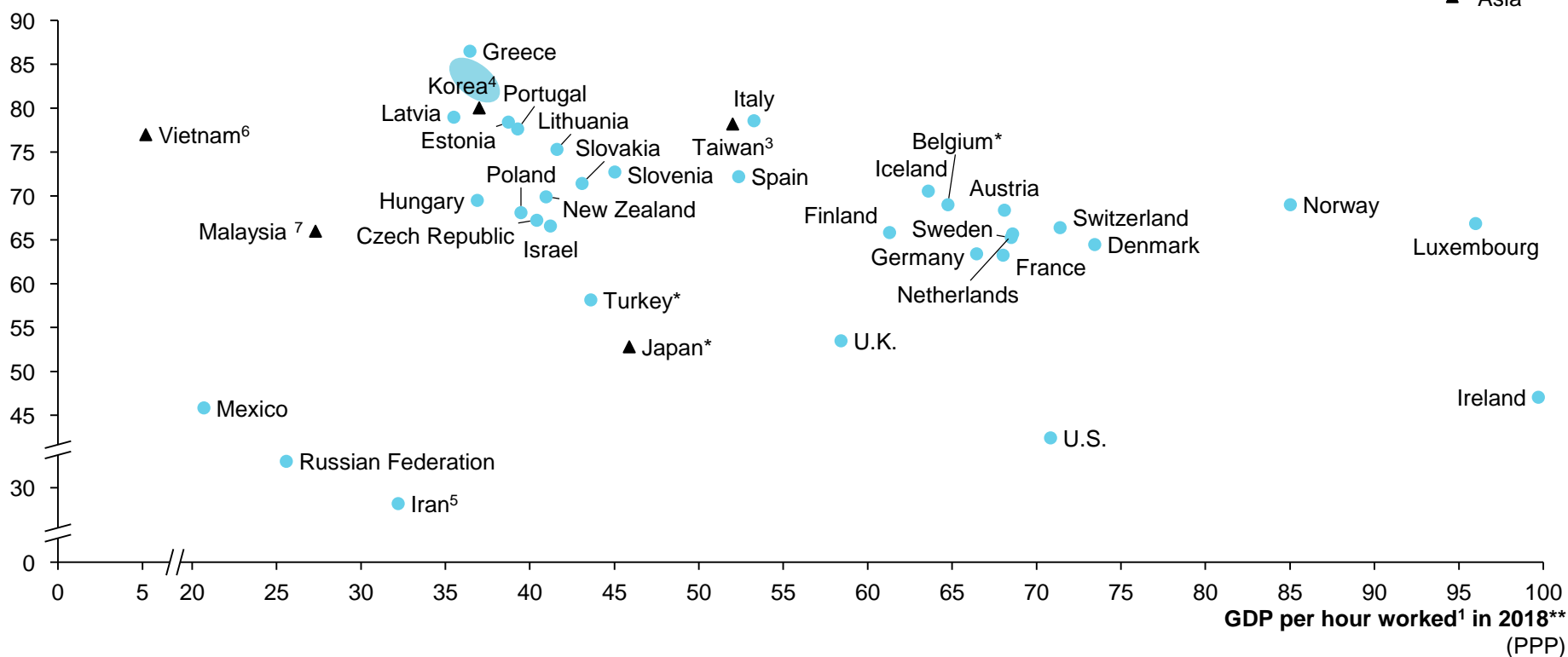
Source: ¹OECD, *GDP per hour worked Indicator 2020*; ²OECD, *Compendium of Productivity Indicators 2019*, ³[x](#), ⁴[y](#) ⁵Statista, Labor productivity per hour in South Korea 2000-2018 (2018) ⁵ [x](#), [y](#)

Even in global terms, Korean SMEs low productivity and significant share of total employment stands out

SMEs contribution to overall economy by country (full list of countries)

SMEs share of total employment² in 2016

(%)



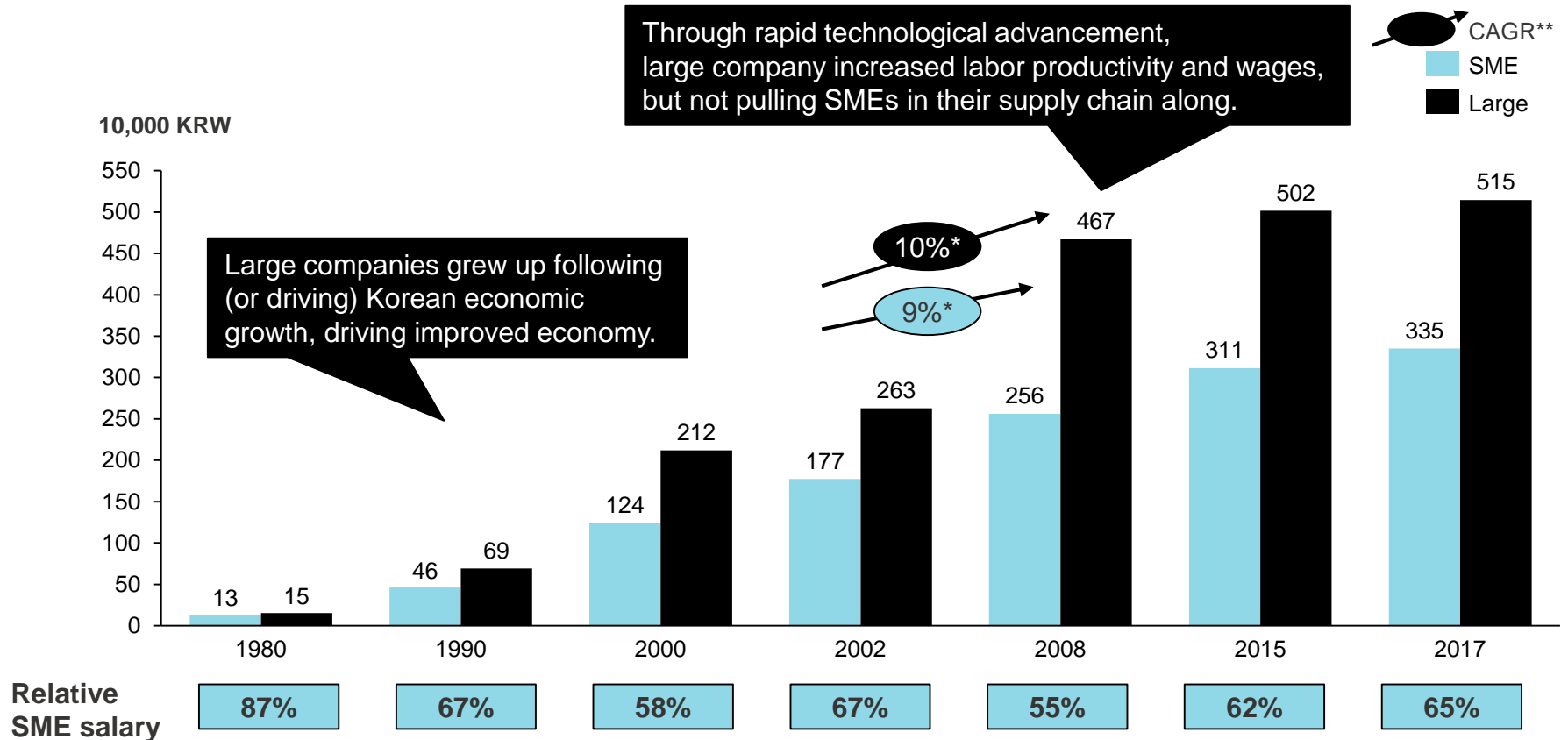
X: 2017 data: Iran, Turkey, Malaysia; 2016 data: Vietnam; 2015 data: Korea, U.S., Russia; 2014 data: Taiwan, Japan; 2013 data: Mexico.

Y: 2017 data: Iran, Malaysia, Vietnam, Turkey (E).

Source: ¹OECD, *GDP per hour worked Indicator* (2020); ²OECD, *Compendium of Productivity Indicators* (2019) ³[x](#), ⁴[y](#) Statista, Labor productivity per hour in South Korea (2018) ⁵[x](#), ⁶[y](#), ⁷[x](#), ⁸[y](#)

The salary gap between SME workers and conglomerate employees remains significant

Monthly salary: SMEs vs. conglomerate employees



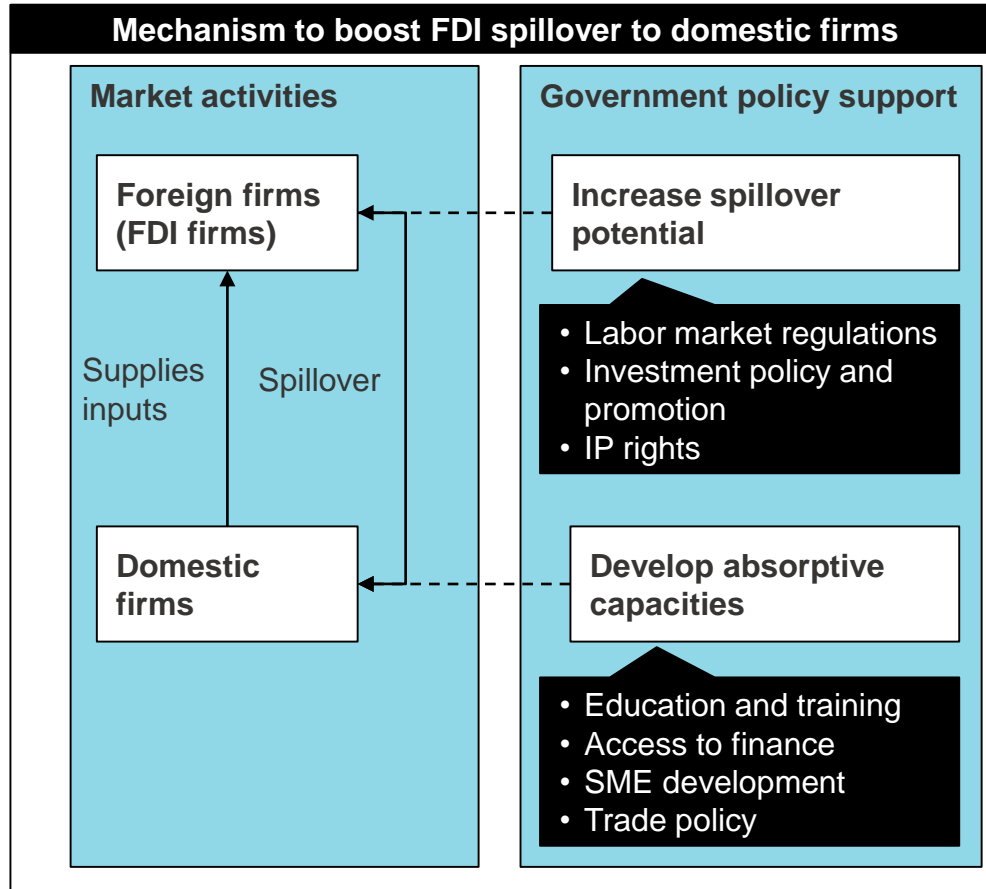
*CAGR 1980-2017. During 1980-2000, conglomerate CAGR was 14% vs. SMEs 12%; during 2000-2017 conglomerate CAGR was 5.4% vs. SMEs 6.0%.

**CAGR = compounded annual growth rate.

Source: KOSIS, Korea statistics, Korea Ministry of Employment and Labor. 김동훈, [패널자료를 이용한 기업규모간 임금격차 분석](#) 2009, 소득주도성장특별위원회, [노동시장 격차 완화와 소득주도 성장](#) 2018.

In Vietnam, government policy aims to help local SMEs to become supplier to MNCs

FDI spillover framework and policy implications



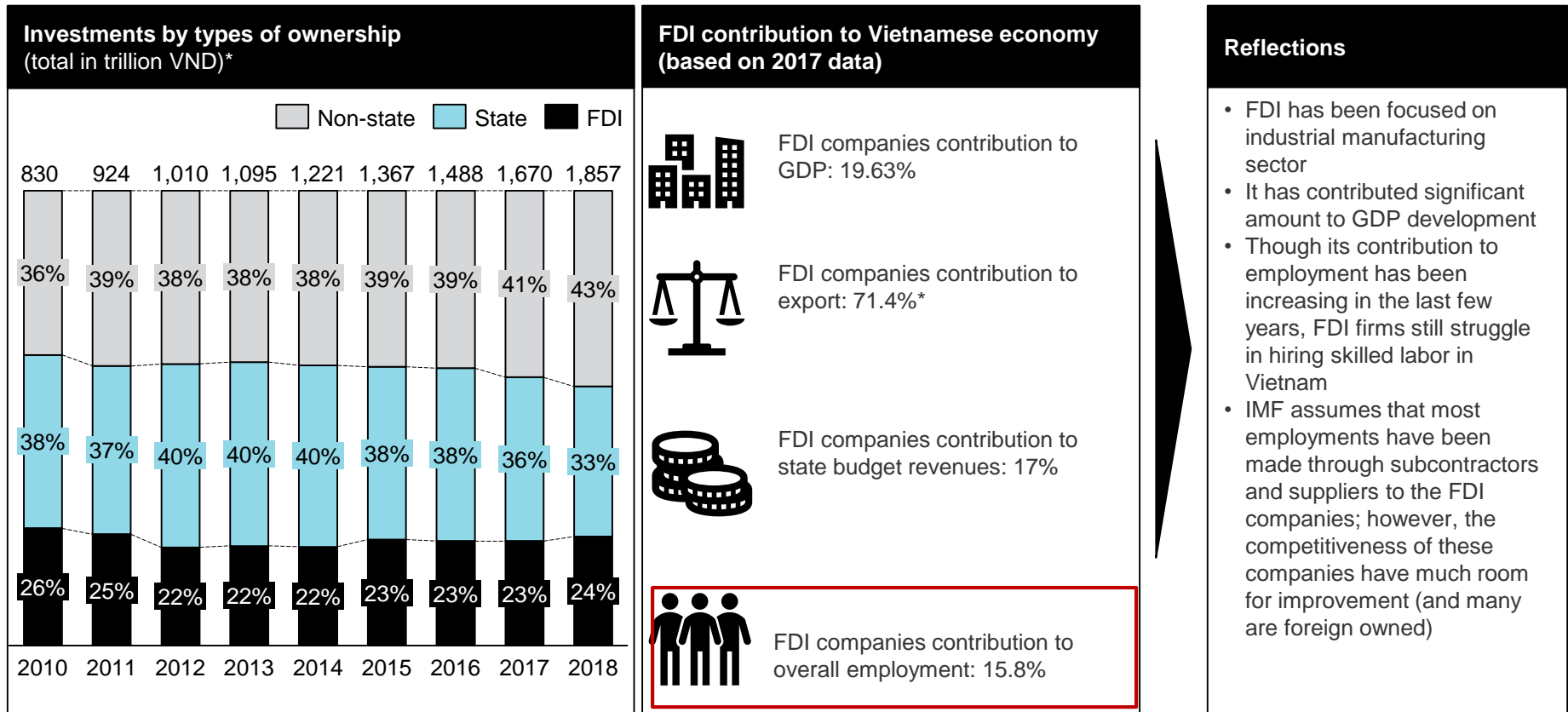
Reflections

- Vietnam holds a clear labor cost advantage currently
- The country has attracted substantial industrial investments especially from Japan and Korea
- The base logic is sound – by allowing high tech companies localize their production in Vietnam, opportunities should emerge for local suppliers
- In addition, Vietnamese B2C related companies appear to have benefited (retail, banking and insurance, real estate, consumer goods) as people have money to spend (which in turn creates further jobs in service sector)

Source: Newman et al., *European Economic Review* 76 (2015), Reddal analysis.

Foreign conglomerate led FDI is still a major contributor to Vietnam's national level indicators, but its spill over effect is limited

FDI investments and spillover effects in Vietnam



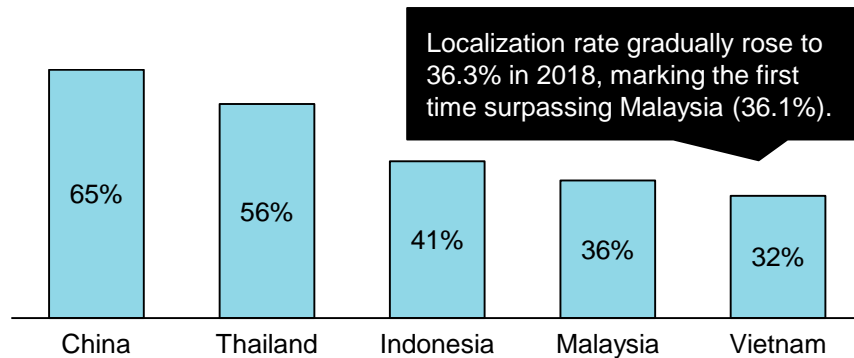
*As of 12/31/2018.

Source: Vietnamese General Statistics Office; Ernst and Young, *Private equity briefing: SEA* (2016); OECD, *Investment Policy Review of Vietnam* (2016); IMF (2002); press articles.

Low localization rate, though increased over time, and local (Vietnamese) supplier quality highlight the competitiveness issue of Vietnamese players

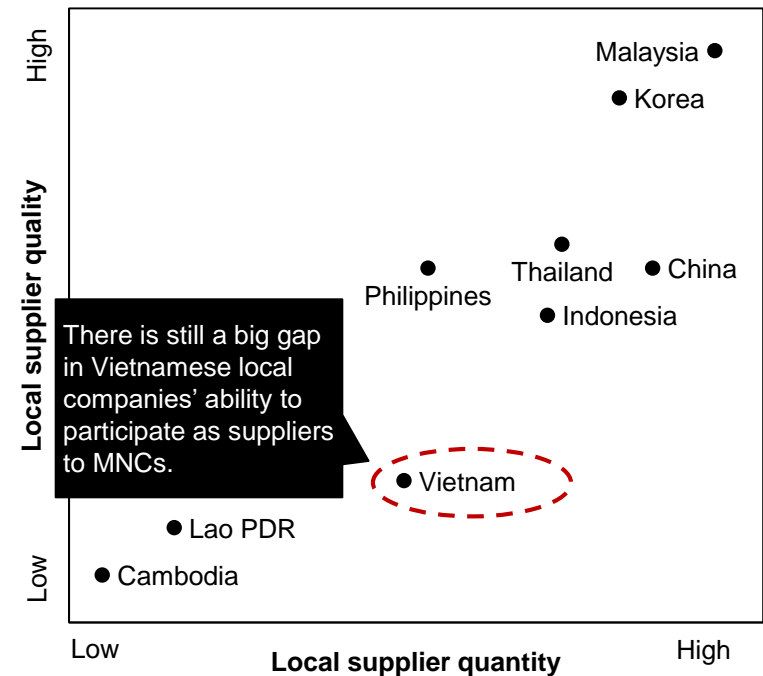
Competitiveness of Vietnamese suppliers

Localization rate* of Japanese-invested manufacturers by country, 2015



- Out of 32% Japanese local sourcing in Vietnam, 45% was sourced from Japanese companies operating in Vietnam and 14% from Taiwanese companies operating in Vietnam
- Low localization rate has directly affected Japanese invested companies' profitability in Vietnam
- Vietnam has been cooperating with Japan since 2000s to build supporting industries but have failed to realize two planned supporting industrial parks after 14 years
- In 2015 survey, actual % purchased from Vietnamese companies is less than 13,7%

Local supplier quantity and quality**, 2015

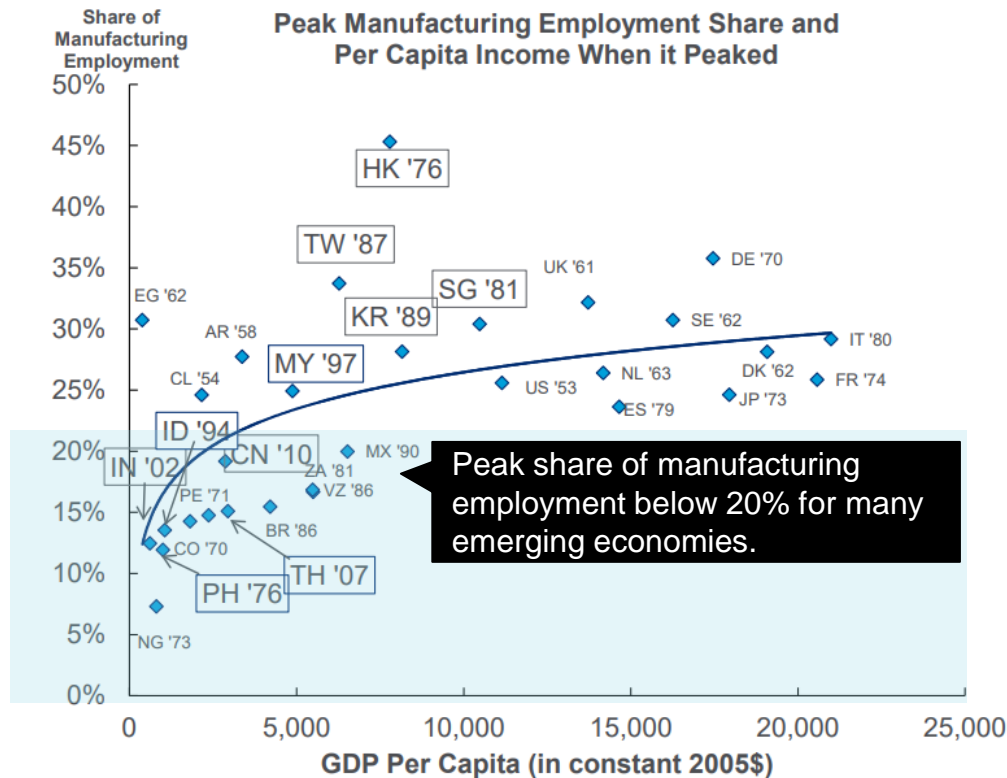


*Localization rate is defined as % of raw material and intermediary goods sourced locally, **Based on OECD ranking of 140 countries.

Source: JETRO annual survey, OECD, press articles.

Avoiding OEM trap is even more critical for SMEs in developing nations – advantage in manufacturing, arising out of cheap labor will diminish

Peak manufacturing employment share and GDP per capita when it peaked Percent, constant 2005 USD



Observations

- Trade has induced productivity gaps to close faster than gap in income as manufacturers must follow similar international standards
- Manufacturing is becoming less labor-intensive also in developing economies; thus peaked share of manufacturing employment has declined
- Automation coupled with additive manufacturing making OEMs from developing economies risk becoming redundant

Source: GGDC-10 Sector database, World Bank Development Indicators, Citi Research in "Technology at work v2.0: The future is not what it used to be."

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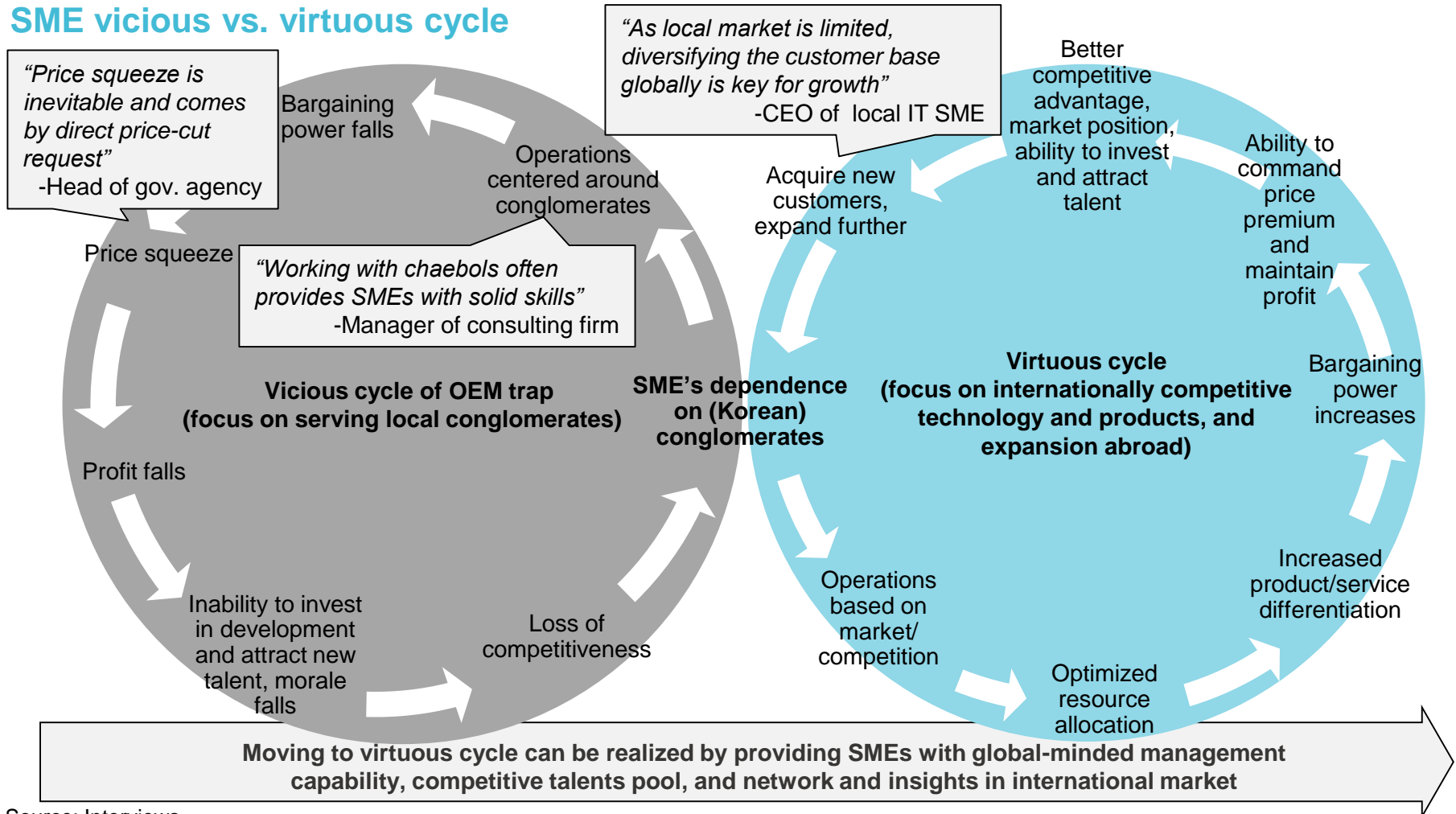
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Korean SMEs are often trapped in a vicious cycle, accepting their role as a local supplier – transition to virtuous cycle requires R&D and internationalization

SME vicious vs. virtuous cycle



Source: Interviews.

Without a dedicated entry strategy, many young companies fall to the pitfalls of relying solely on the “sales” approach for short-term gain

“Sales” approach versus entry strategy approach to international markets

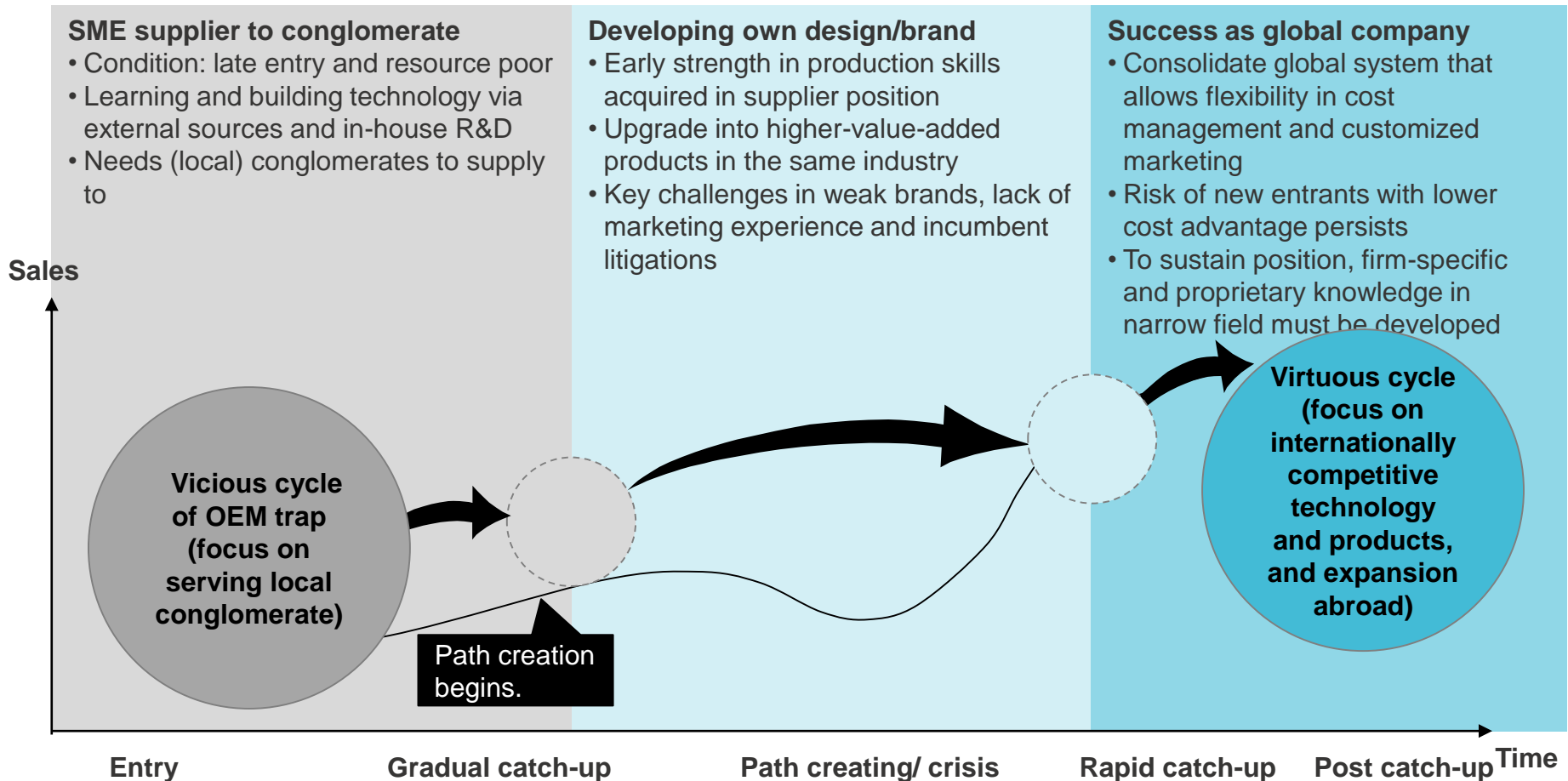
	”Sales” approach	Entry strategy approach (go-to-market system)
Time horizons	Short-run.	Long-run (say, 3 to 5 years).
Target markets	No systematic selection.	Selection based on analysis of markets/sales potential.
Dominant objectives	Immediate sales.	Build permanent market position.
Resource commitment	Only enough to get immediate sales.	What is necessary to gain permanent market position.
Entry mode	No systematic choice.	Systematic choice of most appropriate mode.
New product development	Exclusively for home market.	For both home and foreign markets.
Product adoption	Only mandatory adaptations (to meet legal/technical requirements) of domestic products.	Adaptation of domestic products to foreign buyers' preferences, incomes, and use conditions.
Channels	No effort to control.	Effort to control to drive market objectives/goals.
Price	Determined by domestic full cost with some ad hoc adjustments to specific sales situations.	Determined by demand, competition, objectives, and other marketing policies, as well as cost.
Promotion	Mainly confined to personal selling or left to middlemen.	Advertising, sales promotion, and personal selling mix to achieve market objectives/goals.

Without a go-to-market system with entry strategy for a product/target market, a company only has a “sales” approach.

Source: Franklin R. Root, Entry strategies for international markets (2008).

SMEs in developing nations need a path creation strategy, where internationalization is an integral part of success

Path creation strategy for SMEs: from OEM to OBM*

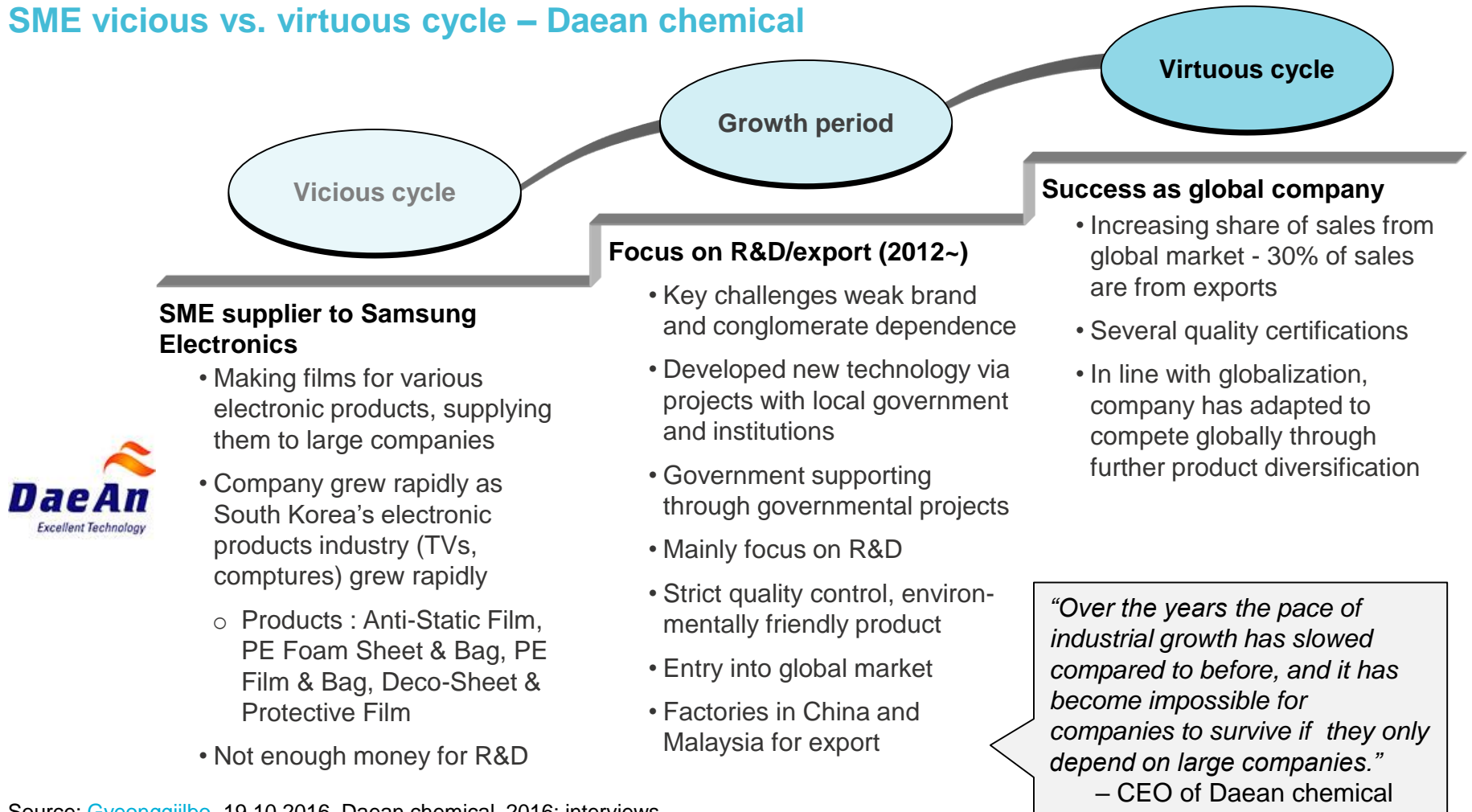


*OEM = original equipment manufacturer, OBM = original brand manufacturer; concepts can be also extended to services

Source: Lee, *Economic catchup and technological leapfrogging*.

DaeAn's global expansion strategy started through projects with local government and institutions

SME vicious vs. virtuous cycle – DaeAn chemical

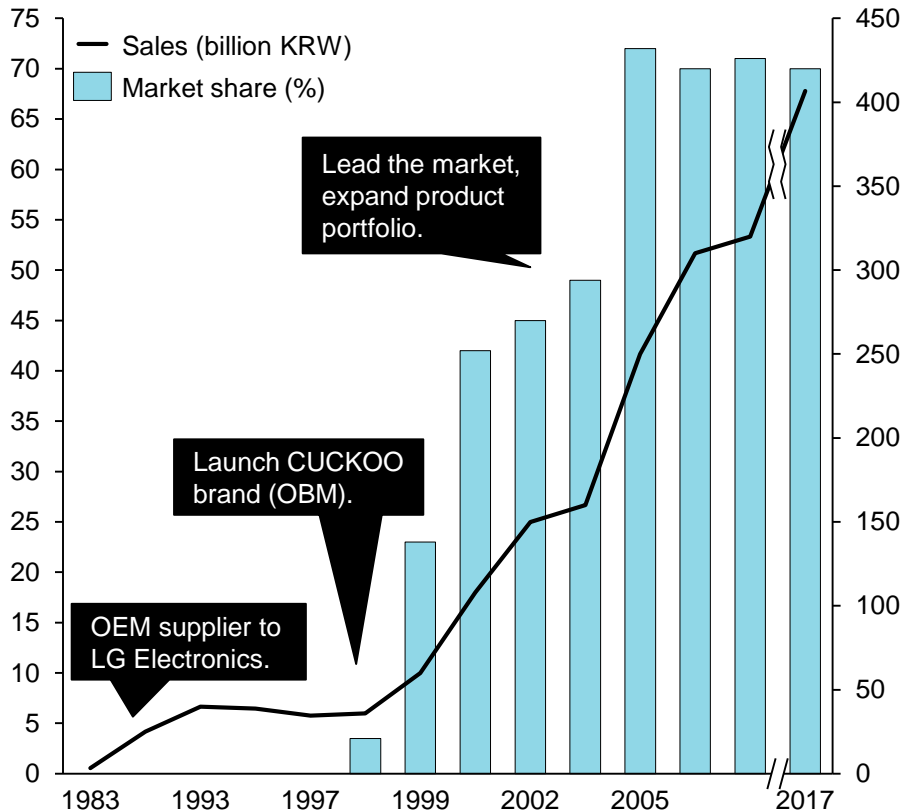


Source: [Gyeonggiilbo](#), 19.10.2016, DaeAn chemical, 2016; interviews.

CUCKOO has grown from an OEM company to a market leader through continuous R&D and overseas expansion strategies

SME vicious vs. virtuous cycle – CUCKOO

Sales growth – CUCKOO Electronics



Key elements of growth strategy

- ✓ **Became a market leader through a breakthrough product and continuous product innovation with R&D**
 - Penetrated the market filled by large companies with technology which makes rice tasty (electronic rice cooker)
 - Continuously developed other products such as water purifier, induction range
 - (Performance) has more than 70% market share after 2005, and ranks high across product categories
 - Induction range (3rd), water purifier (4th)
- ✓ **Successfully expanded into the global market by using localization**
 - Right rice temperature considered local environmental factors such as humidity, temperature
 - Localized marketing such as using local celebrities
 - (Performance) the company exports to 25 countries; export revenue in 2015 was about 634MKRW

Source: [전기레인지 앞세운 쿠쿠, 올해 1조 클럽 가입 눈앞](#), 2019.4.4, [Insight Korea](#) 2019.05.02, [Newsnv](#) 2018.5.1, [코끼리도 무릎 꿇었다 '쿠쿠' 1등 브랜드 진화기](#) 2009, [Digital Times](#) 2016.4.6, Dart 2017.

Point Mobile's growth came from high quality standards through R&D resources and its aggressive overseas expansion strategy

SME vicious vs. virtuous cycle – Point Mobile

Growth strategy elements

Focus on R&D and quality

- 70% of employees are R&D employees
- Strict quality control process
- Developed high quality of products: quality test standards are much more stringent than international standards

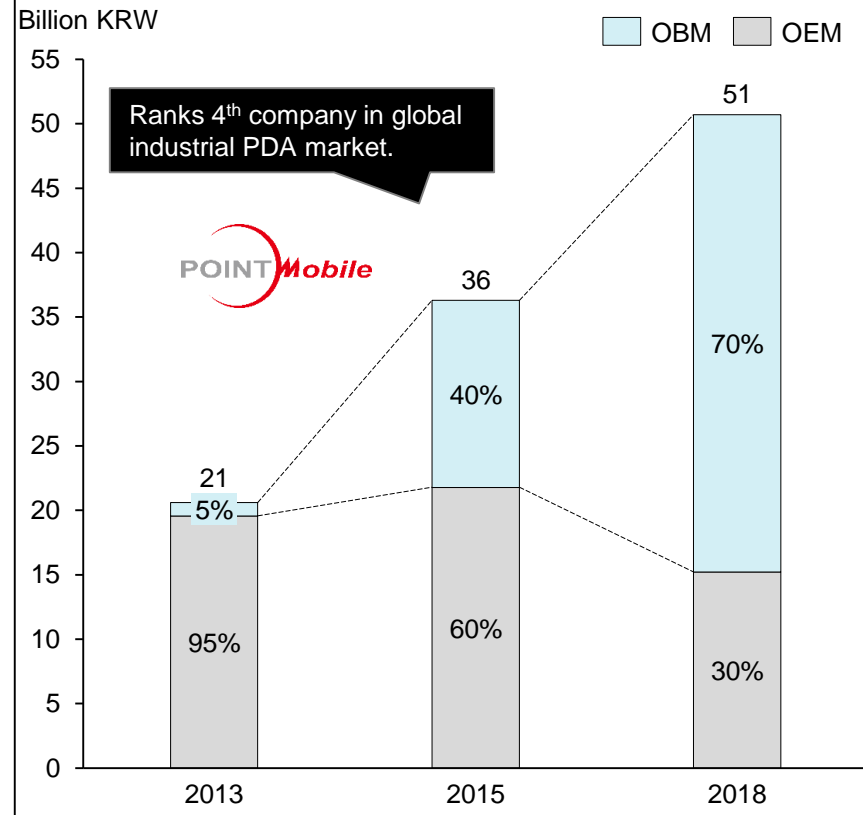
Actively driving export growth

- 85% of all products are exported to 60 foreign countries and 130 large customers
- Exports sales account for 90% of all sales

OBM with global distribution and service

- Improving technologies and know-how
- Price competitiveness by modernized and advanced production line
- Credibility: service by 112 dealers and dealers worldwide within 3 days

Point Mobile sales development



*OEM = original equipment manufacturer, OBM = original brand manufacturer; concepts can be also extended to services.

Source: Pointmobile, edaily, “하니웰 등 사로잡은 비결은 극한의 품질 테스트”, 포인트모바일 (2016), Dart (2018).

Misfit combined local capabilities across multiple countries in a unique way to fuel its growth

Leveraging international connections for acceleration: Misfit Wearables

About Misfit (now part of Fossil Group)



- Founded in 2011 by Sony Vu (CEO and President), Sridhar Lyengar and former Apple CEO John Sculley
- Offering: health tracker wearables
- Available in 20 countries (US, Canada Mexico, Brazil, UK, Germany, Italy, France, Switzerland, Spain, Sweden, Russia, Australia, China, Hong Kong, Japan, Singapore, Taiwan, South Korea and India)
- Acquired by Fossil Group at 260MUSD in November 2015

On organizing international operations in Vietnam*

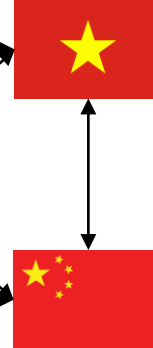
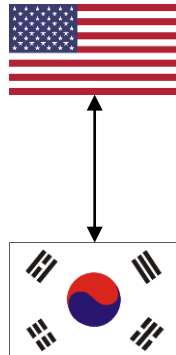
Q: What prompted the decision to have so many employees here [in Vietnam], aside from your background?

Vu: “So we have to get the best talent at the best price. So what we’ve done is optimized our hiring to be in places where we have an unfair competitive advantage”.

Vu: “If you just come here with a mentality, I’m going to get cheap outsourced labor, then that’s exactly what you’re going to get... So we really give them [the Vietnamese staff] a lot of authority... And people rise up to the challenge”.

Leverage the best of each world to gain competitive advantages and scale internal capabilities development fast.

- Product design
- Funding
- Marketing and sales
- Manufacturing



- Logistics and supply chain, operations, finance
- Customer service
- Data science and algorithm development
- Firmware engineering
- Graphic design
- Commercial product development

*Interview with Sonny Vu conducted by CNET in 2015.
Source: Company website, press articles.

Uber's struggles to scale in China, Russia and SEA illustrate that global success of digital services still require local know-how

Lessons learnt from some of Uber internationalization journey

UBER

Uber expansion timeline in selected markets

- Feb 2013 – Uber launched in Singapore, starting its expansion in South East Asia (SEA).
- Jul 2014 – Uber officially launched in China. Also in Russia.
- August 2016 – Uber China merged into Didi Chuxing. Uber China would own 20% of the new entity. Didi to own \$1bn share in Uber global.
- July 2017 – Uber merged its operations in Russia, Azerbaijan, Belarus and Kazakhstan with Yandex. Uber would own 36.6% of the new entity.
- March 2018 – Uber sold its operations in SEA for 27.5% stakes in Grab – a Singapore based competitor.

Source: Press clippings.

REDDAL

Uber Slayer: How China's Didi Beat the Ride-Hailing Superpower

"We felt like the People's Liberation Army, with basic rifles, and we were bombed by airplanes and missiles."

By Brad Stone and Lulu Yilin Chen | October 6, 2016

Photographs by Ka Xiaoxi

From **Bloomberg Businessweek**

Uber stages retreat in Russia as it merges with rival Yandex

Ride-hailing company makes second embarrassing climbdown after selling its Chinese operations last year

Technology

Grab Vanquishes Uber With Local Strategy, Billions From SoftBank

By Yoonim Lee

March 26, 2018, 10:00 PM GMT+3

UBER EVERYWHERE

Uber's defeat in Southeast Asia calls into question its "barge in" expansion strategy worldwide

By Jiahui Wang • MARCH 26, 2018

Grab focused on building "segmented, localized and tailored service" to foster customer experience and loyalty

Grab localization strategy to succeed in regional expansion

South East Asia special characteristics



- Traffic congestion make motorbike a more convenient and faster choice



- Cash payments are still prevalent in many South East Asian cities



- SEA is a fragmented region with different languages; many still do not speak English



- Durian is a special and popular local fruit in many parts of SEA

How Grab cater to local needs and tastes



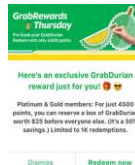
- GrabBike was launched in 2014, two years ahead of Uber Motor



- Grab has traditionally accepted cash payments, long before Uber began to pilot it, first in India in 2015



- Grab launched GrabChat in 2016 with template messages and auto translation for quick communication between drivers and riders



- Grab organized special campaigns/ redeem offer for special treats of high-quality durian

Source: Press clippings.

REDDAL

Key messages

Understanding the drivers of national economic growth – the role of population, productivity and export

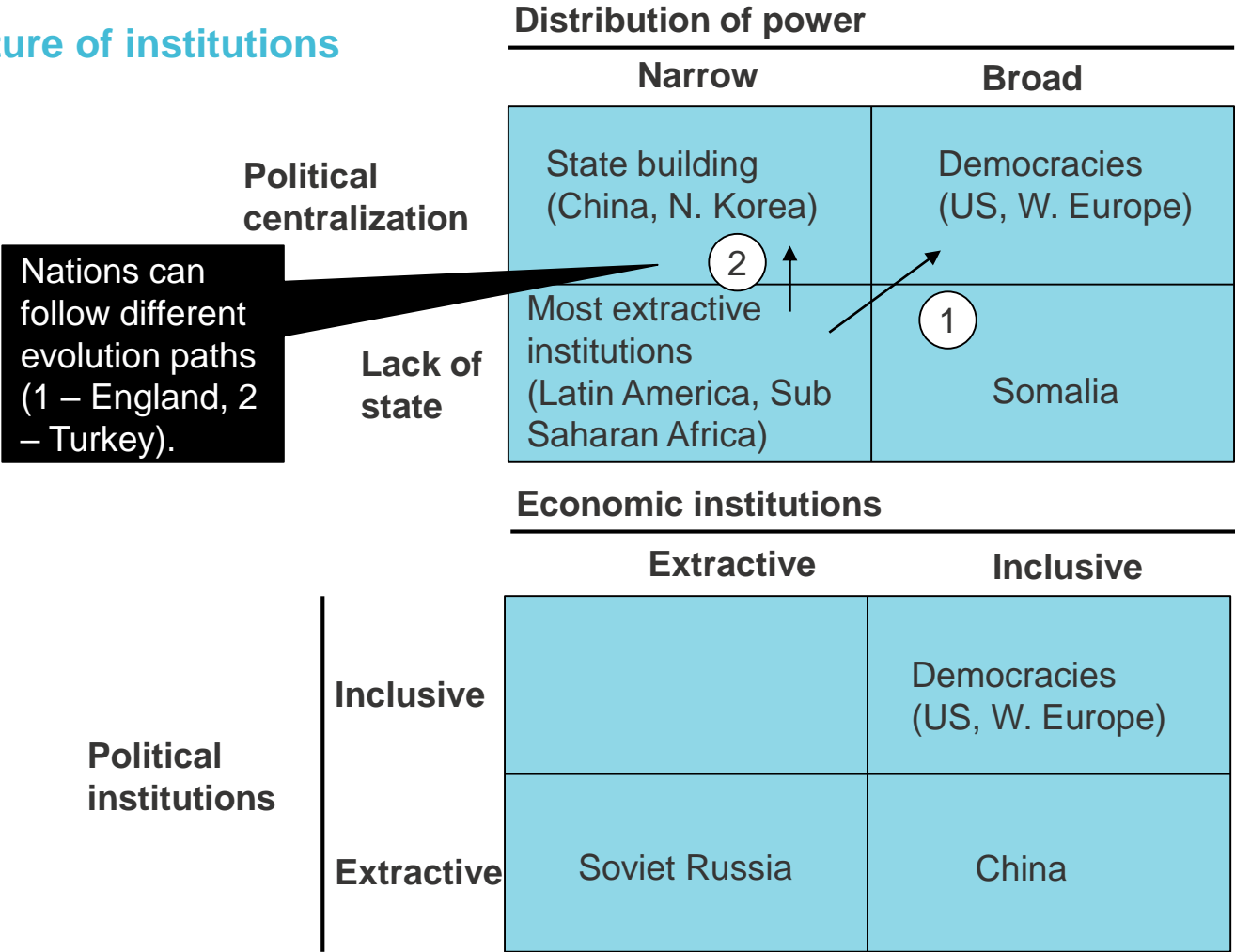
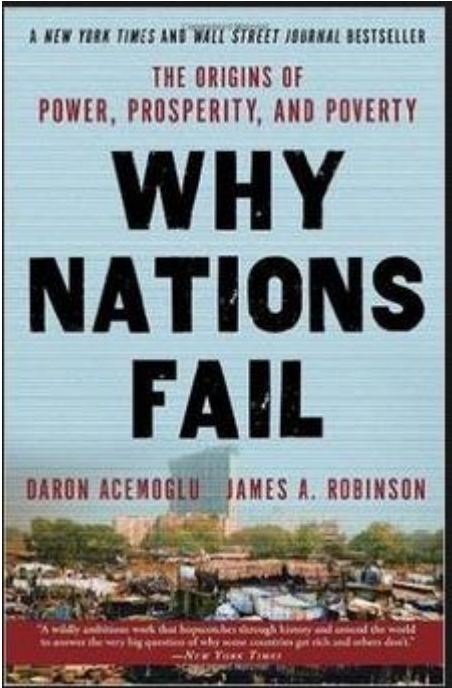
The role of national policy – development paths of South Korea and Vietnam have ups but also downs

From a vicious to virtuous cycle – encouraging SME stories illustrate the importance of own R&D and branding for a global market

The role of a policy ecosystem – need to cover end-to-end, rather than just focusing on one part of the development journey

Success of a nation is not only about economics – it connects to both political and economic institutions

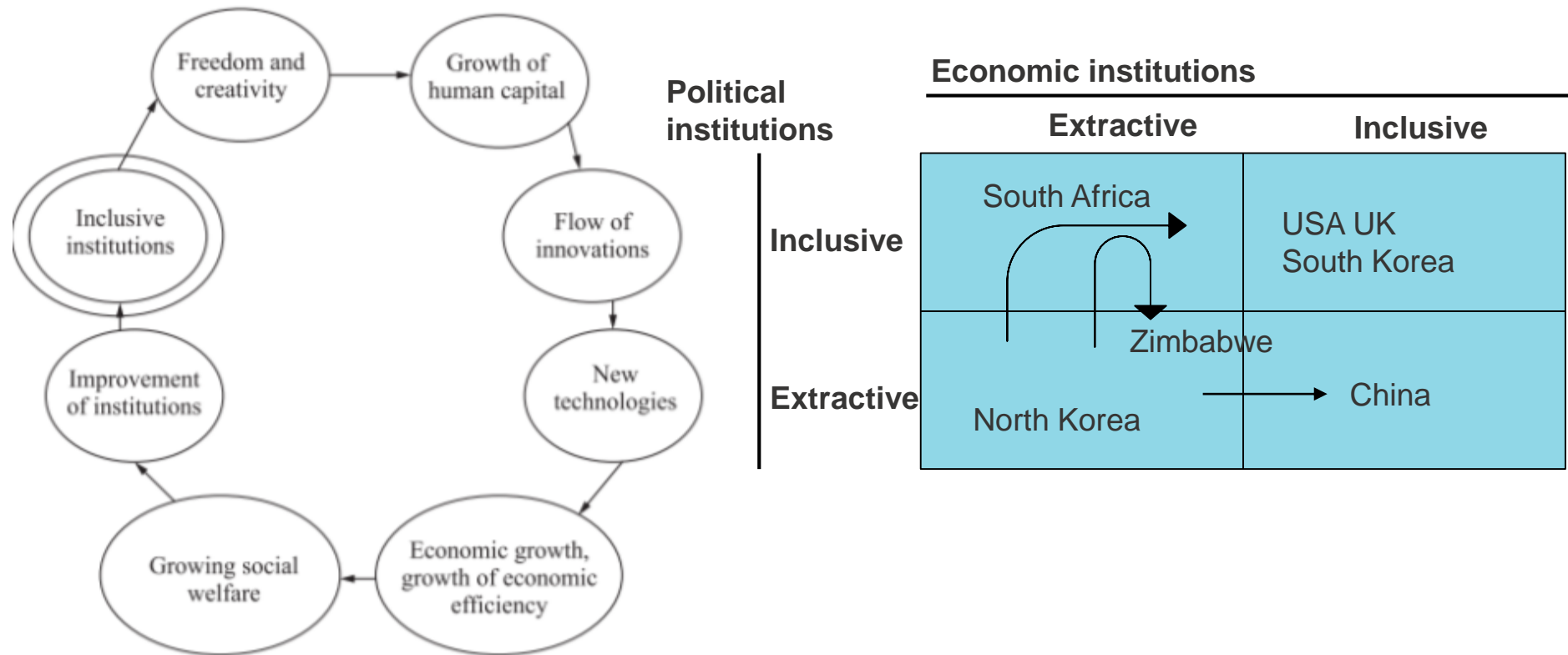
Basic concepts on structure of institutions



Source: Daren Acemoglu, MIT, *State building: A political economy perspective*. See also *The narrow corridor* by the same authors.

The basic idea is that innovation is driven by freedom and creativity; institutions can improve that by incentivizing everyone to participate

Rents and economic development



Source: Daren Acemoglu, James A. Robinson, *Rents and economic development: the perspective of Why Nations Fail*.

Inclusiveness is a key element in the early part of development, but the overall policy ecosystem must also meet requirements down the line

Growth development path and role of environment

Role of environment	Creating unique ideas	Professional business development	Value adding owners	Industrial leadership
	<ul style="list-style-type: none"> • High quality education • Inclusiveness • Global talent • High quality research 	<ul style="list-style-type: none"> • Focused gov't role • Active business angel community • International, regional and local investors • Ecosystem of professional services 	<ul style="list-style-type: none"> • Listed in stock market (functioning market) • Part of larger corporation (ecosystems of good corporate owners) 	<ul style="list-style-type: none"> • Significant contribution to home country (attractive regulative environment and stability)

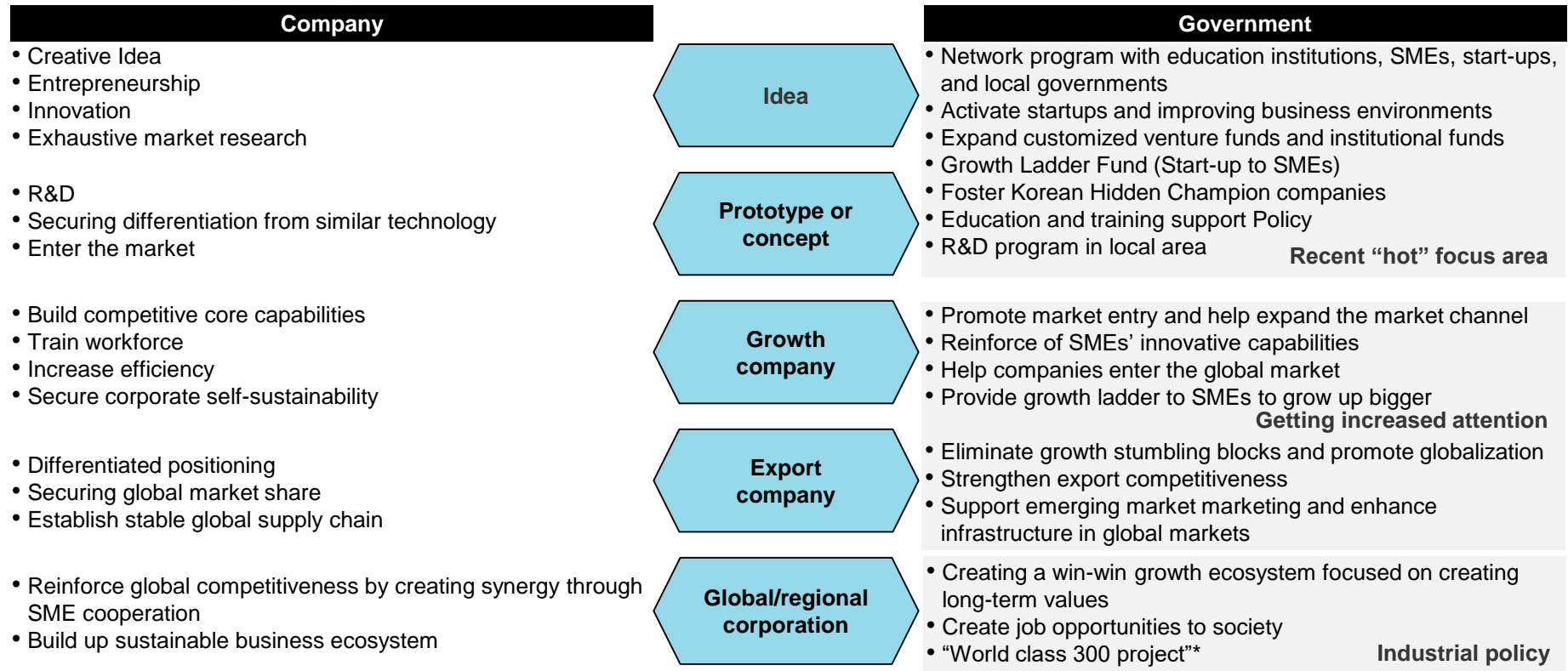
	Idea	Prototype or concept (MVP*)	Growth company	Export company	Global/regional corporation
Tasks	Capturing market changes <ul style="list-style-type: none"> • Technology evolution • New services • Changes in demographics • Changes in wealth 	Establishing a foothold <ul style="list-style-type: none"> • Deliveries to first customers • Customer feedback 	Expanding the base <ul style="list-style-type: none"> • Supply chain • Sales channels • Marketing in multiple markets • Access to top notch talent 	Scaling up to high volume operations <ul style="list-style-type: none"> • Deliveries to multiple markets • Expanding presence • Attractive employer in home country 	Domain leadership <ul style="list-style-type: none"> • Acknowledged brand • Presence in multiple markets • Attractive employer in multiple markets

*MVP = Minimum viable product.

Source: Adapted from Eero Byckling, *Vienti vetämään – näin luomme uusia menestyviä vientituotteita* (2018).

South Korean economic policy has actively extended itself across all development stages, but does not yet address the issue of weak SMEs

Korean policy ecosystem with companies

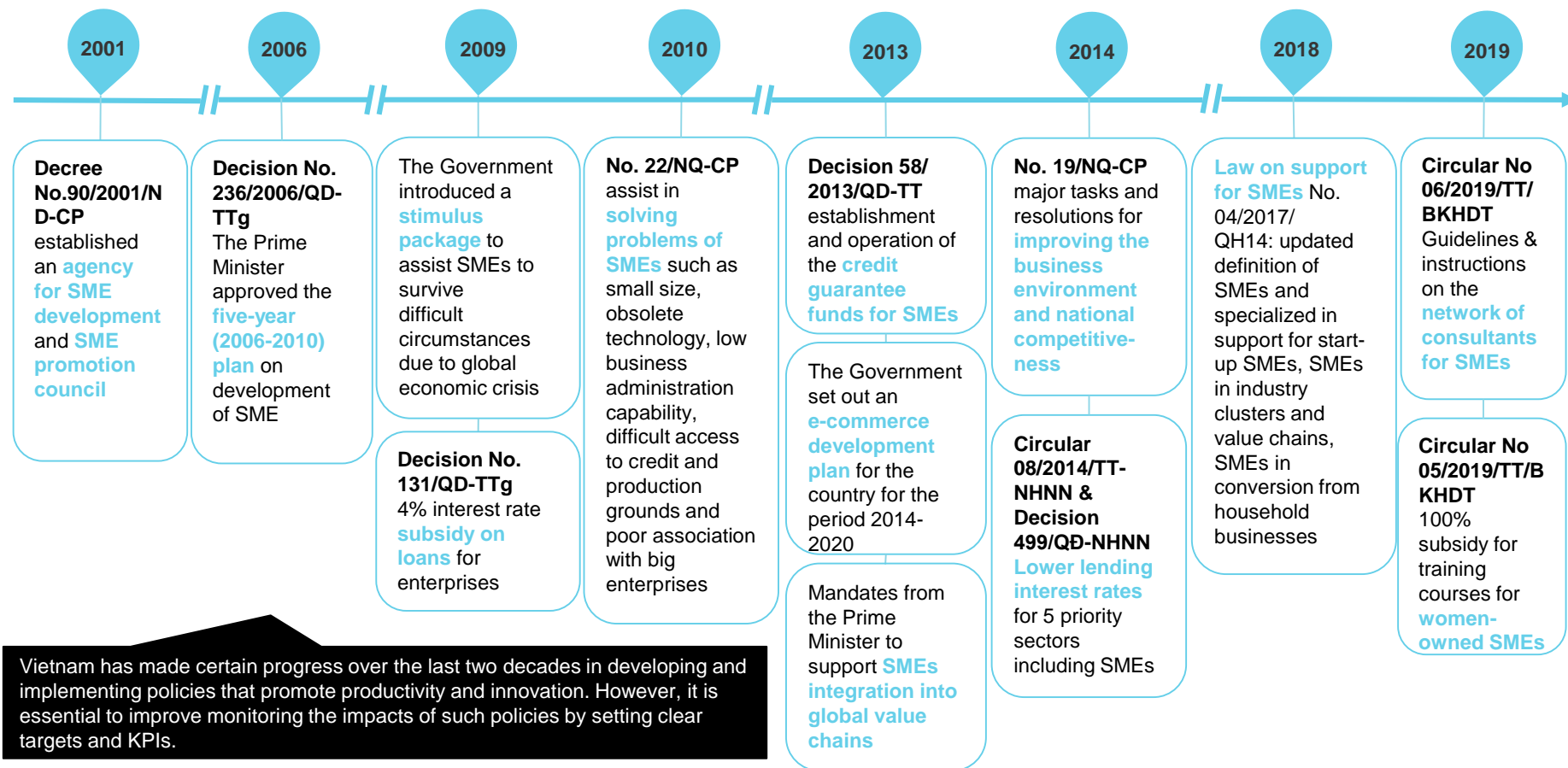


Since the end of the Korean war, industrial policy and large corporations have been in the center of policy, and continue to be so today. More recently startups have become the “hot” area with lots of government support. SMEs are getting more and more attention, but structural issues (vicious cycle and marginalization) have prevented significant impact.

Source: [기업생태계 경쟁력과 상생협력 증진방안](#) 2009, [KMAC 한국능률협회컨설팅](#), [중소-중견-대기업 성장생태계 발전방안](#) 2016, [한국 기업생태계의 미래](#).

Vietnamese government regulatory support has focused on improved credit access and reduced admin burden – impact of recent new measures to enhance capabilities remains to be seen

SMEs policies and supporting programs

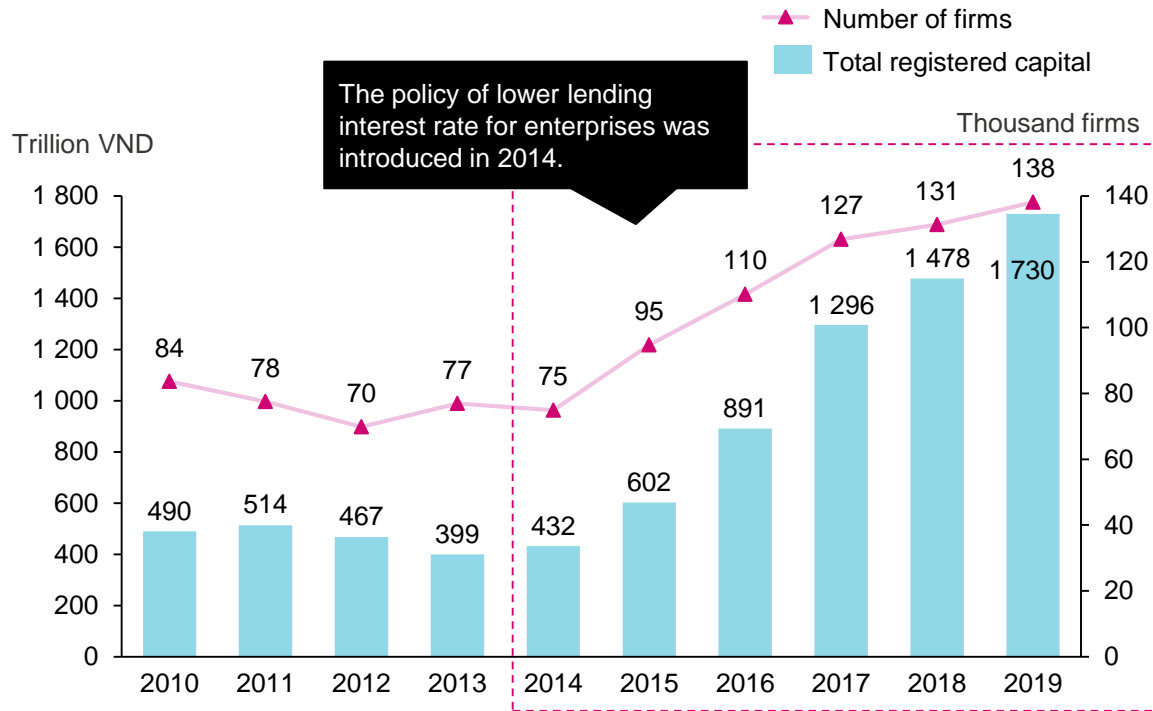


Source: OECD/ERIA, SME Policy Index: ASEAN 2018 (2018); press clippings.

Stimulation packages encouraged formation of new SMEs supported by bank lending – whether development is sustainable is still not clear

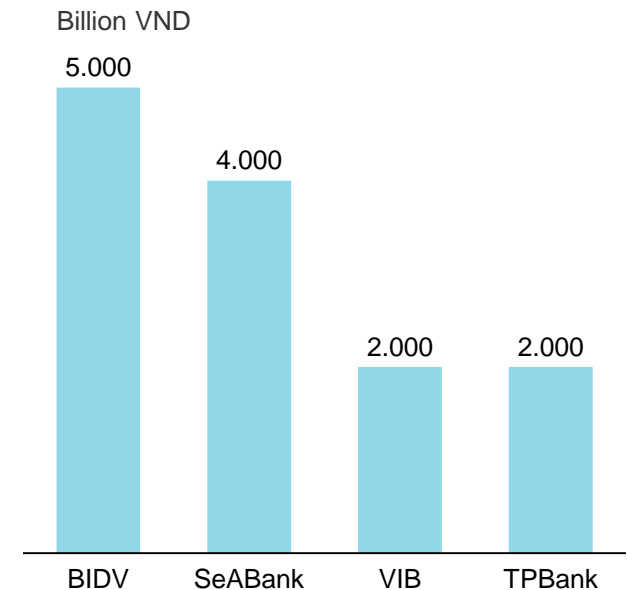
Impacts of national policies on the development of SMEs in Vietnam

Newly established firms (mainly SMEs) from 2010 to 2019



However, the number of suspended and dissolved enterprises is also on the rise, indicating an unstable development of SMEs.

Stimulus package provided by commercial banks in 2014



Commercial banks in Vietnam started to offer stimulus packages with low interest rates to facilitate credit access for enterprises (mainly SMEs), led by BIDV – one of the largest state-owned banks.

Source: Vietnamese Ministry of Planning and Investment, State Bank of Vietnam.

We can learn from the past, and from others, but the future we face brings fresh challenges – new holistic solutions are needed

Conclusions

- Growth is becoming increasingly difficult – the past does not provide clear recipes for the future, nations must forge their own paths; in particular, manufacturing led export growth as a strategy is being challenged
- Population growth is a clear driver for GDP growth, but needs to be combined with productivity growth – countries must avoid the low labor cost trap that has both negative effect on productivity as well as potentially inequality
- South Korean state run industrial policy, that favors a small number of large corporations, is perhaps not a successful strategy in the long term (compare to German industrial ecosystem, and the strong role of "Mittelstand" companies)
- Vietnam may be a cautionary lesson in the excessive dependence on FDI, with not enough attention to build the country's own industrial ecosystem (leading to weak SMEs, similar to Korea)
- As a base rule, Asian companies can innovate if they leverage their inherent advantages in a creative way
- Political and economic inclusiveness is critical to success – it implies seeking to get the most of all members in the society (also immigrants in the country and diaspora abroad); low admin burden of doing business is also key
- However, in order to develop a growing economy, the nation's policy ecosystem must address the needs of the entire company development path – piecemeal solutions do not work (see also Josh Learner, *Bulevard of Broken Dreams*)



Working together for
successful growth!