



Regional Workshop on SME Development and Regional Economic Integration

22–26 September 2008, ADBI, Tokyo

**Welcome Remarks
by
Masahiro Kawai, Dean, ADBI**

Dr. Shyamal Majumdar, Director General, Colombo Plan Staff College for Technician Education (CPSC); distinguished speakers; esteemed experts; participants; ladies and gentlemen: Good morning.

It is my great pleasure to welcome you to the Asian Development Bank Institute (ADBI) for the ADBI-CPSC Joint Regional Workshop on *SME Development and Regional Economic Integration*.

I understand that, in this workshop, three key issues and their links will be discussed in-depth. These are SME development, Asia's regional economic integration, and technical and vocational education and training.

Let me share my views on each of these issues.

First is SME development. In most, if not all, countries in Asia, each SME is small in size, but SME development has always been high on governments' agendas. The reason for this is that the SME sector accounts for more than 90% of firms in terms of number, more than two thirds of labor employment, and a substantial part of total output. For example, in Japan, SMEs account for 99% of total number of firms and about 70% of total employment. In China, SMEs contribute more than 99% to the total number of firms and about 60% of GDP. In many developing countries in Asia, the number of SMEs has been rising over the past decade.

There are many sectors—manufacturing, services, and agriculture—that provide substantial business opportunities for SMEs. One of the four theme papers for this workshop has identified five such sectors—information technology (IT), tourism, textiles, food processing, and auto parts and components. Other potential sectors may include wood-based products, rubber-based products, agro-based products, fisheries, healthcare, air travel, and logistics.

While SMEs typically serve local markets in the areas where they are located, an increasing number of Asian SMEs are participating in expanding international trade. This has been made possible as a result of many countries in Asia adopting outward-oriented policies and participating in the processes of globalization and Asian economic integration.

This leads to the second issue, namely the widening opportunities for SMEs offered by Asia's regional economic integration. The recent ADB flagship study, *Emerging Asian Regionalism: A Partnership for Shared Prosperity*, noted that as international trade expands in Asia, production processes are increasingly split into small sub-processes, creating a dense network of supply chains and distribution. This so-called "fragmented" production has allowed firms to specialize in narrow niches and participate in international trade, particularly that of intermediate inputs, such as parts and components.

The share of intermediate inputs trade out of the total manufacturing trade in Asia has increased rapidly. In ASEAN, for example, the share rose from an average of 35% in 1996 to 43% in 2006. The trend of rising intra-regional trade represents significant opportunities for SMEs to serve Asia's expanding demand—for example, by way of supplying parts and components to the region's production networks or offering necessary logistical support services.

To take advantage of these emerging business opportunities, SMEs need to acquire the capacity, knowledge, technology, and skills that are essential for supplying quality products and services. For this purpose, they need to identify and tackle the various constraints that impede SME development, particularly in the Asia-wide context. Some of these constraints are: limited information about market opportunities, limited access to finance, limited access to new technologies, poor physical infrastructure, and lack of education and training.

For your information, ADBI is currently leading another flagship study on *Infrastructure and Regional Cooperation* to examine key challenges confronting Asia's infrastructure shortfall, in such sectors as power, transport, and communication. The final report of this study will be released during the ADB Annual Meeting in Bali in May next year.

The third issue is technical and vocational education and training (TVET). To address the lack of education and training, TVET has an important role to play particularly in building capacity of SMEs to better take advantage of changing business opportunities and environments. Our partner—CPSC—has been instrumental in promoting TVET in the region and we are pleased to contribute to their efforts to further improve the quality of TVET.

Asian Development Outlook 2008 reported that the economic success of Asia has led to a shortage of qualified workers which, if left unanswered, may lead to lower productivity and competitiveness at the firm level and pose a risk to the region's long-run economic growth.

Despite efforts made in improving the quality of TVET, vocational and skills training has not been sufficiently geared towards producing the skills required by rapidly modernizing economies, resulting in some mismatches between demand and supply of skills. To tackle this issue, suggestions have been made to foster closer links between TVET institutes and the private sector which they are serving so that the right skills can be identified and supplied through well-targeted and properly designed TVET curricula. To promote SME development, entrepreneurship management also needs to be integrated into vocational education.

I believe we have among ourselves a rich pool of experience that can be shared. For example, in many countries—like Thailand, Malaysia, India, Philippines, People's Republic of China, Korea, and Japan—business incubators have been established either as public or private entities or as some form of public-private partnerships, and

have proven successful in promoting high-tech SMEs. Sharing of country practices and experiences has always been an integral part of ADBI's Capacity Building and Training (CBT) activities in an effort to promote applicable best practices.

I very much look forward to a week of active and productive discussions. I also hope that you find the planned visit to the Ota District Techno Wing as enjoyable as it is intellectually rewarding.

With that, I would like to once again welcome you to ADBI and wish you all fruitful deliberations and an enjoyable stay in Tokyo.

Thank you.