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## JAPANESE MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN ASEAN

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## JAPOŃSKIE MIKRO, MAŁE I ŚREDNIE PRZEDSIĘBIORSTWA (MMŚP) W ASEAN

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**Summary:** The main objective of the paper is to indicate the role of the Japanese MSMEs in ASEAN, major drivers, strategies and destinations of their internationalization through FDI within the region, including home market's institutional support. The following research methods were used: primary source analysis, descriptive statistical analysis, comparative analysis, and case studies. When studying motives of entry into markets of Southeast Asia, it appears that Japanese businesses are mostly market- and/or efficiency-seeking, appreciating ASEAN for both rising market potential and inexpensive labour forces. As for now, internationalization of the Japanese MSMEs through FDI used to concentrate in five ASEAN member states, namely, Indonesia, Malaysia, Singapore, Thailand and Viet Nam, mostly in automotive and electronics industry, however, further progress of trade liberalization and improvement of intra-regional physical connectivity would benefit other countries and sectors in the future.

**Keywords:** micro, small and medium enterprises (MSMEs), internationalization, Japan, ASEAN.

**Streszczenie:** Celem głównym artykułu jest wskazanie na rolę japońskich MMŚP w ASEAN, kluczowe czynniki, strategie i destynacje ich internacjonalizacji poprzez BIZ w obrębie regionu Azji Południowo-Wschodniej, z uwzględnieniem wsparcia instytucjonalnego ze strony rynku macierzystego. W artykule posłużono się metodami analizy źródeł pierwotnych, statystycznej analizy opisowej, analizy porównawczej oraz studium przypadku. Analiza motywów wejścia na rynki Azji Południowo-Wschodniej dowiodła dominacji motywów rynkowych oraz wydajnościowych pośród inwestorów japońskich, doceniających w szczególności rosnący potencjał rynkowy oraz niskie koszty siły roboczej. Internacjonalizacja japońskich MMŚP poprzez BIZ koncentruje się w pięciu krajach członkowskich ASEAN: Indonezji, Malezji, Singapurze, Tajlandii oraz Wietnamie, przede wszystkim w branżach motoryzacyjnej i elektronicznej, jednakże dalszy postęp liberalizacji handlu oraz poprawa wewnątrzregionalnej łączności mogą przelożyć się z czasem na wzrost atrakcyjności inwestycyjnej innych państw oraz branż regionu.

**Słowa kluczowe:** mikro, małe i średnie przedsiębiorstwa (MMŚP), internacjonalizacja, Japonia, ASEAN.

## 1. Introduction

Micro, small and medium enterprises (MSMEs) are found to be key actors in the economy, accounting for rising shares in employment, exports and GDP of the country. In case of ASEAN (Association of Southeast Asian Nations), involving, to date, ten regional states, namely, Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam, MSMEs dominate in terms of numbers and contribute significantly to regional integration processes, including ASEAN Economic Community (AEC) project. AEC, established in the late 2015, assumes transformation of the region into the single market and production base, whereas MSMEs may act as building blocks in intra-regional value chains (for further studies see [Bobowski 2017a]). Regional production networks, recognized as one of the pillars of East Asian economic regionalism, established in particular by foreign multinational enterprises (MNEs) from Japan and the United States, involve more and more external local and foreign MSMEs acting as suppliers, subcontractors, technological collaborators, joint venture partners and distributors.

Many Japanese MSMEs, pushed by home market's specificities, while being attracted by diversified attributes of ASEAN region, internationalize through FDI to assist larger MNEs in Southeast Asia, concentrating mostly in Indonesia, Malaysia, Singapore, Thailand and Viet Nam within electronics and automotive industries, as service or part and components' providers. Interestingly, acting both as tier 1 or tier 2 contract manufacturers, Japanese MSMEs also source from or subcontract work to ASEAN counterparts.

Presence of the Japanese MSMEs in ASEAN enhance development of production networks of higher intensity and higher-end processes and products, based on vertical specialization and arm's length transactions, stimulating ipso facto local entrepreneurship, competitiveness and industrialization (for further studies on production networks see [Drelich-Skulska et al. 2016]).

The main objective of the paper is to indicate the role of the Japanese MSMEs in ASEAN, major drivers, strategies and destinations of their internationalization through FDI within the region, including home market's institutional support. The following research methods were used: primary source analysis, descriptive statistical analysis, comparative analysis, and case studies.

## 2. Review of the literature

Internationalization of enterprise through FDI has become a field of research of the discipline of international business (IB) in the late 1940s. Theoretical foundations of contemporary IB discipline embrace, among others, monopolistic advantage theory by Hymer, market imperfection theory by Hymer, Kindleberger and Caves, product cycle theory by Vernon, as well as works of Lall and Streeten, addressing capital inflows to less developed countries, while the former used to concentrate on the US

FDI in Europe after the Second World War [Buckley 2002, p. 371]. In the 1970s two integrated research themes progressed analysis of the enterprises' international strategy, including studies by Chandler, Wilkins, Stopford, Wells et al. on the business organization, as well as transactions costs theory by Williamson and internalization theory by Buckley and Casson [Skulska (ed.) 2009, p. 26]. Dunning established the so-called eclectic theory of foreign direct investment, merging theories of monopolistic advantages, location and internalization [Rymarczyk 2004, pp. 47–51]. In the 1980s IB discipline addressed the phenomenon of globalization and its implications for international businesses and their competitiveness. The latter has been comprehensively studied by Porter, Rugman, Dunning et al. In the 21<sup>st</sup> century, as pointed out by Nowakowski, more and more attention is to be paid to the role of MSMEs in international business instead of concentration on MNEs, as well as newly emerging forms of networked and virtual businesses [Nowakowski (ed.) 2005, p. 34]. Chabowski, Hult, Kiyak, and Mena [2010] recognized internationalization as one of three main research fields of IB discipline in the years 1976–2008, however, with emphasis put on cultural aspects of international business activity within developing world and emerging markets such as ASEAN members. Griffith, Cavusgil and Xu [2008] placed internationalization of MSMEs and the role of emerging markets in IB in the first category of prospective research fields of discipline after 2008.

There is no single, widely recognized theory of internationalization, however, it may be termed as regular cross-border activities of the enterprise, following multiple motives and strategies. What is characteristic of many enterprises deciding on internationalization is a gradual intensification of overseas activities starting with neighbouring markets manifesting some commonalities with the home market, where primary experiences were collected. According to Uppsala model, the sequence of the company's internationalization may involve from traditional, less demanding and intensive operation modes such as direct and indirect exports, through non-equity modes such as franchising, licensing and subcontracting arrangements, toward foreign direct investment (FDI), such as setting up a subsidiary company specializing in sales or distribution, or manufacturing plant [DaSilva, Trkman 2014; Eriksson et al. 2000; Vahlne, Johanson 2013]. Basing on the aforementioned model, the concept of unconventional internationalization was developed to describe the sequence of the company's activities to reach foreign markets, while skipping successive stages of internationalization, as well as simultaneous internationalization, assuming both market unification and the disappearance of cultural differences on a global scale [Gorynia, Jankowska 2007, pp. 31–33]. Critics of the Uppsala model address the phenomenon of born globals, then, enterprises becoming global at the initial stage of existence due to omitting the phased model of internationalization, as well as the rising importance of the network approach in international business. In case of the latter there is an emphasis put on the approach to company's behaviour through the prism of broader network to which a given entity belongs, instead of individualist perspective.

In the literature there is a variety of definitions of micro, small and medium enterprises (MSMEs), recognized primarily in legal terms under national legislation. When studying MSMEs sector at the level of individual ASEAN members, it seems that definitions are closely correlated with the level of development of a given economy and its specificity. Therefore, statistical image of the MSMEs sector may differ, as well as its contribution to GDP, rates of growth or internationalization. For instance, Lao PDR, Myanmar and Thailand do not recognize micro enterprises, while Singapore – micro and small enterprises, in legal terms. Interestingly, Brunei Darussalam categorizes micro, small and medium enterprises only in terms of number of employees (less than 4, 19 and 99, respectively), while Philippines – only in terms of the size of assets (less than 3, 15 and 100 million PHP). Whereas Brunei Darussalam, Cambodia, Myanmar, Singapore, Thailand and Viet Nam omit the criterion of the size of turnover, Malaysia skips the criterion of the size of the assets. Malaysia, Myanmar, Thailand and Vietnam diversify thresholds for MSMEs depending on their type, for instance, manufacturing and service enterprises (Malaysia), manufacturing, labour-intensive manufacturing, retail, services (Myanmar), manufacturing, retails, other services (Thailand), manufacturing, services (Viet Nam). For instance, according to Malaysian law, manufacturing enterprise of the medium size employs less than 200 persons, service enterprise – less than 75 persons, while retail enterprise of the small size in Myanmar employs less than 30 persons, labour-intensive manufacturing – less than 300 persons [ASEAN Secretariat 2015, pp. 16–18].<sup>1</sup> In Japan, according to Small and Medium Enterprises Basic Law, there is a legal recognition of the small scale enterprise, as well as small and medium sized, in each case indicating criteria of the capital and employment size, of which at least one has to be met. Moreover, the aforementioned legal act define small and medium enterprise in different way depending on the industry sector in which they operate. In case of smaller scale enterprises, there is only a threshold of employment – up to 20 persons in case of manufacturing enterprises, 5 persons – commerce and service, respectively. In case of SMEs, thresholds are as follows: up to 300 million yen of capital, up to 300 persons employed in manufacturing, up to 100 million yen of capital and 100 persons employed in wholesale, up to 50 million yen of capital and 50 persons employed in retail, up to 50 million yen of capital and 100 persons employed in services, respectively [Hayashi 2012].

When studying internationalization of MSMEs, however, it should be noted that this category of enterprises may follow similar motives as larger counterparts, perceiving foreign expansion in terms of natural process of the company's growth and transformation. On the other hand, for many MSMEs internationalization is not an option due to lack of such a necessity, limited financial, technical, human,

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<sup>1</sup> In general, when analysing MSMEs in the ASEAN region, it is useful to assign an upper limit of employment – namely, 250–300 persons, while addressing national definitions and thresholds only if necessary.

information capacities and aversion to risk. Susman et al. [2007, pp. 104–106] distinguished between push, pull and neutral factors of internationalization. First of these address specificity of the domestic market that enhance enterprise to seek for opportunities such as market potential and resources abroad, while the second refers to spectrum of incentives and attributes of the host market that attract foreign entrants. The latter category, then, neutral factors, involve development of information and communication technology (ICT), as well as the phenomenon of born globals, then, enterprises established as global due to characteristics of the niche markets, that tend to be technologically advanced and knowledge-intensive. Importantly, potential of MSME's internationalization depends on the characteristics of a given enterprise, industry, as well as macro-environment. Combination of push and pull factors makes business operators either market-, resource-, strategic-, or efficiency-seeking investors (for further studies see [Bobowski 2017b]).

### 3. Japanese MSMEs in ASEAN

As already stated, MSMEs play significant role in the economy, accounting for 88–99% of all establishments in ASEAN, over 99% of all enterprises in Japan, while providing 51–97 and 70% of jobs, respectively [ASEAN Secretariat 2015, pp. 8–11].

Whereas the European Union was the largest investor in ASEAN as a grouping of 28 states with 19,666.5 million USD of FDI flows in 2015, Japan was the largest single investor in respective year with FDI flows amounting to 17,395 million USD<sup>2</sup> [ASEAN Secretariat 2016, p. 221]. From the perspective of the Japanese MSMEs, operating mainly in automotive parts and components and electronics industries, ASEAN is the major destination for FDI. According to Japan External Trade Organization (JETRO), among 941 surveyed Japanese MSMEs operating abroad, 506 were active in ASEAN, then, 53.8%,<sup>3</sup> with special regard to Thailand (231), Viet Nam (140), Singapore (114), Indonesia (101) and Malaysia (89).<sup>4</sup>

From the statistical point of view, typical Japanese MSME has one or two overseas facilities, very frequently in ASEAN and China. The Japanese MSMEs operating in ASEAN produce services or parts and components acting either as

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<sup>2</sup> The second single investor in 2015 were the United States – 12,191.5 million USD, the third – China – 8,155.3 million USD. The latter, however, increased the size of FDI flows to ASEAN in the years 2010–2015 by 133.77%, while Japan – by 33.94%.

<sup>3</sup> Only in case of China results proved to be better: 523 enterprises, 55.6% of shares.

<sup>4</sup> Of which 231 operated in Thailand, 140 in Viet Nam, 114 in Singapore, 101 in Indonesia, 89 in Malaysia. Regarding sectoral composition of the studied population (excluding micro enterprises), in Thailand there were 143 Japanese SMEs specializing in sales, 117 – in manufacturing, 5 – in R&D, 29 – in the other sectors such as: logistics, maintenance, finance, other services, regional headquarter or representative office; in case of Viet Nam results were as follows: 58, 71, 4 and 33, Singapore: 93, 8, 5 and 18, Indonesia: 50, 40, 0 and 18, Malaysia: 54, 26, 5 and 15, respectively. In the Philippines, Myanmar, Cambodia and Lao PDR, the total amount of the Japanese SMEs was 53, 25, 21 and 7, respectively [ASEAN Secretariat 2016, p. 157].

suppliers or contract manufacturers of the MNEs. They assist larger enterprises such as Mazda, Matsushita, Nissan, Sony and Toyota in establishing and expanding regional production networks, involving local and foreign MSMEs active in ASEAN as distributors, suppliers, technology collaborators, joint venture partners or subcontractors. Concentration of the Japanese MSMEs within selected ASEAN member states is enhanced by cost advantages, as well as location of numerous Japanese MNEs, mainly from automotive and electronics industries. Next to efficiency-seeking orientation, there is a market-seeking motive of many Japanese investors, deciding on establishment of sales offices in ASEAN. The Japanese MSMEs not only involve ASEAN counterparts in the value chains of the larger enterprises, but also assist them in development of technological capacities within supporting industries, the latter acting as a trigger of FDI inflows.<sup>5</sup>

In the years 2001–2014 the number of Japanese MSMEs internationalizing through FDI rose from 4143 to 6346,<sup>6</sup> however, there is still around 180,000 MSMEs operating in Japan, that potentially might consider relocation to overseas markets. Among push factors there are as follows: cost pressure and unfavourable demographic trends at home, a need to follow the major customers, increase the sales or diversify the risk, government's support for internationalization of the Japanese MSMEs. On the other hand, major pull factors are: growth of industries in ASEAN, cost advantages, presence of important clients. Worth mentioning, many Japanese MSMEs not only manufacture and distribute in ASEAN, but also conduct R&D activities there.

Regarding the strategy of the Japanese MSMEs' internationalization when entering ASEAN, they used to locate wholly owned plant there, however, in some cases, due to capital restrictions – like in case of services sector – or market-seeking orientation, joint venture with local enterprises is established.

It should be noted that internationalization of the Japanese MSMEs is supported by the home government, starting with JETRO, SME Agency and Organization for Small & Medium Enterprises and Regional Innovation (SMRJ),<sup>7</sup> that provide

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<sup>5</sup> In this context, ASEAN Economic Community (AEC) established in the late 2015, assuming transformation into the single market and production base, would attract more foreign entrants, including Japanese, making regional production networks based on physical connectivity – one of the pillars of regional integration.

<sup>6</sup> When considering the profile of the company, in 2001 there were 2013 small and medium manufacturers, 1019 wholesalers and 125 retailers from Japan internationalizing through FDI, while in 2014 – 3221, 1406 and 129, respectively. 986 SMEs in 2001 and 1590 in 2014 were classified to the other sectors of the economy, including services [ASEAN Secretariat 2016, p. 154].

<sup>7</sup> SMRJ supports internationalization of the Japanese MSMEs through, among others, advisory services, organization of business seminars, company visits, trade fairs and networking events to enhance collaboration among entrepreneurs originated both in Japan and ASEAN. Among beneficiaries of SMRJ's support when entering ASEAN markets there were, among others, Daisin, Fuji Die, Iwai Micro Components and Musashi Paint. Complementary activities have been undertaken since 2012 by SME Support, that organized numerous business-to-business meetings and platforms to promote cooperation

institutional support in four stages, namely: provision of information about foreign markets through consultation, business seminars, etc., assistance in preparation of strategy of overseas expansion mainly through consultancy services, assistance in implementation of the strategy of overseas expansion mainly through support of business events and fairs, continuous support of the foreign operations of the enterprise. Importantly, SME Agency established an Office of Overseas Expansion in 2014 in order to assist Japanese MSMEs in internationalization, while JETRO established 20 Overseas Expansion Platforms in 14 countries for the purposes of direct support of the Japanese-owned subsidiaries located there.

Among the Japanese MSMEs that established plants in ASEAN there are, among others, Fuji Die Co Ltd (metal moulding products, Indonesia), Musashi Paint Co Ltd (paint for automobile, consumer electronics, computers and mobile phones, Malaysia), Nihon Parkerizing Hiroshima Works Co Ltd (road signage, metal surfacing, Thailand), Diasin Co Ltd (die-cast aluminium, Thailand), Okatsune Gears Manufacturing Co Ltd (washers, Viet Nam). An example of joint venture with ASEAN partner is Denkensha Co Ltd (covers and hangers for electrical and communication equipment, Viet Nam), whereas Iken Engineering Co Ltd (shielding materials for radiation safety management, Myanmar), Hashimoto Electronic Industry Co Ltd (medical equipment, electronic security devices, Myanmar), Dainichi Hanso Co Ltd (powder, granulate conveyer belt, Viet Nam) focused on distribution, Maxpull Machine and Engineering Co Ltd (winches, Indonesia, Malaysia, Singapore, Thailand, Viet Nam) and Metrol Co Ltd (industrial sensors for factory automation, Thailand) established offices, Iwai Micro Components Co Ltd (super-miniature parts for dental and medical services, Thailand) operates as contract manufacturer. Moreover, Japanese MSMEs such as Segawa Tool Co Ltd (cutting tools), Hakuzo Medical Corporation (sanitizing medical products), AZ Asia Limited (endoscope filling system and medical equipment), Koike Medical Co Ltd (medical equipment), Fujita Medical Instruments Co Ltd (medical equipment), Kinki Roentgen Industrial Co Ltd (X-ray devices for otolaryngology and dental services), Cast Co Ltd (cast products), Nagatsu Precision Mold Co Ltd (plastic moulds and optical parts of camera) either recognize business opportunities in ASEAN these days, including distributorship and partnership with local enterprises from Indonesia, Malaysia,

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in manufacturing, distribution, R&D and investment between the Japanese and the other Asian MSMEs, including ASEAN. Among numerous business events organized by SME Support, there were, among others, meeting of 280 Japanese MSMEs and 50 ASEAN enterprises representing various industries such as automobile parts, construction, dies and moulds, ICT, infrastructure, aircraft parts, medical equipment, food machinery in March 2014 in Japan, meeting of 105 Japanese MSMEs and 19 Indonesian enterprises producing automobile parts, medical equipment and moulds in October 2015 in Japan, meeting of 150 Japanese MSMEs and 20 Vietnamese enterprises specializing in electronic components, machinery, medical and transportation equipment in December 2015 in Japan, meeting of 180 Japanese MSMEs and 21 enterprises from Myanmar manufacturing electric, electronics and medical equipment, representing construction industry in January 2016 in Japan, meeting of 39 Japanese MSMEs and 18 Thai enterprises specializing in medical equipment in April 2016 in Japan [SMRJ 2017].

Thailand or Viet Nam, or just consider relocation from the other countries, including China [SMRJ 2017].

In the following part of the article another, more detailed examples of the Japanese MSMEs that internationalized into ASEAN are delivered.

#### 4. Selected case studies<sup>8</sup>

The five Japanese MSMEs presented in Table 1, that operate already in ASEAN, specialize in automotive parts (Fineplas and Toyoda Giken), industrial processing (Minato Rubber), building materials (Metal Products), as well as food industry (Ogayawa).

**Table 1.** Selected Japanese MSMEs in ASEAN and their motives of entry

Name	Products	Host country	Motives of entry
Fineplas	Automotive electrical parts	Thailand	Efficiency-seeking Following customers
Minato Rubber	Rubber and resin	Viet Nam	Efficiency-seeking Declining sales at the home market Following customers
Metal Products	Wall materials, lightweight iron frames, furring for roofs	Indonesia	Market-seeking Joint venture opportunities
Ogayawa	Production of noodles	Thailand	Market-seeking Joint venture opportunities
Toyoda Giken	Automotive parts	Viet Nam	Efficiency-seeking

Source: own elaboration.

Fineplas was established in 1967 in Toyama Prefecture in Japan, producing electrical parts for automotive MNEs. Next to mass production, they provide services like mould specification, production layout and testing. In 2013 Fineplas established subsidiary in Thailand in response to relocation of major clients from Japan, receiving support from the JETRO Bangkok's Business Support Centre. In July 2014 the first Thai plant of Fineplas was opened and a network involving local subcontractors and suppliers began to expand. According to declaration of the company's management, the second Thai plant will start its operations soon. Thus, next to following the main customers, there was an important aspect of cost efficiency that enhanced internationalization through FDI into ASEAN.

The second automotive MSMEs from Japan analysed here is Toyoda Giken established in 1959 in Gunma Prefecture, providing press parts of automotive lights, precision press moulds, heat resistant coatings, surface treatments and design to Japanese and North American MNEs. In July 2006 Toyoda Giken opened its Vietnamese plant in Noibai Industrial Zone in Hanoi for metallic press. Just like in

<sup>8</sup> Based on: [JETRO 2017; ASEAN Secretariat 2016, pp. 197, 198].

case of Fineplas, relocation to ASEAN was made to reduce the costs, then, efficiency-seeking motive. Worth mentioning, in 2016 Toyoda Giken started its operation hub in Thailand and consequently expands sales channels in Indonesia and India with support of JETRO.

Minato Rubber, company established in 1969 in Tokyo, alike in case of Fineplas, internationalized through FDI into ASEAN in order to follow main customers from automotive industry. As a result, this MSME manufacturing pneumatic-related components for vehicles, as well as rubber parts and resin products, supported by JETRO, opened its Vietnamese plant in Ha Nam Province in 2014. There is an emphasis put on the training of the local staff to decentralize the authority to further increase the sales and profits within the host location. As senior management declared, those motives dominated over cost-related aspects of investment in Southeast Asia.

Metal Products Inc. originated in Japan is a producer of lightweight iron frames for solar panel mounting structures, wall materials for building and furring for roofs. In December 2015 company decided to establish a joint venture with large Indonesian producer, resulting of its technical and network capacities.

The last example is the producer of noodles from Shimabara City – Ogayawa, established in 1926. In December 2014 this Japanese MSME opened its first restaurant in Bangkok in cooperation with Thai business partner, with support of the Bangkok JETRO office and the Japanese banks operating locally. The senior management declares establishment of the restaurant chain and noodle plant in Thailand soon. Then, alike in case of Metal Products Inc., both joint venture and market-seeking motives apply here.

What is a common denominator of all the cases is the provision of market information, including arrangement of business contacts among the Japanese and ASEAN MSMEs, as well as direct support during implementation phase of the internationalization project by JETRO.

## 5. Conclusions

ASEAN is becoming more and more attractive destination for the Japanese enterprises, including MSMEs. When studying motives of entry into markets of Southeast Asia, it appears that Japanese businesses are mostly market- and/or efficiency-seeking, appreciating ASEAN for both rising market potential and inexpensive labour forces.<sup>9</sup> Among the major push factors of the Japanese MSMEs'

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<sup>9</sup> According to JBIC survey, future growth potential is especially recognized by the Japanese enterprises in Indonesia and Viet Nam (83.4 and 71.6% of respondents), while Viet Nam and Thailand were simultaneously recognized as a source of cheap labour (49.1 and 36.7% of respondents). Interestingly, 50.8, 40.9 and 39.1% of respondents pointed at the problem of rising costs of labour in Thailand, Indonesia and Viet Nam, whereas Indonesia was mentioned in the context of ineffective legal system – 40.3% of respondents. Meanwhile, problem of the rising costs of labour in China was signalled by 73% of surveyed, while ineffective legal system – by 54.1% [DBS Group Research 2016].

internationalization there is a long-term stagnation and unfavourable demographic trends at home, while rapidly integrating Southeast Asia transforming into AEC would serve as attractive alternative for both home and the other overseas markets, including Chinese. Furthermore, numerous Japanese MSMEs manufacturing at home to date, may consider internationalization in the future, including FDI or joint venture, into ASEAN, following major customers, such as MNEs and acting as contract manufacturers of parts and components or services providers. From the perspective of host location in Southeast Asia, it is an opportunity to industrialize, benchmark, stimulate local entrepreneurship, benefit from technology transfers and spillovers. As for now, internationalization of the Japanese MSMEs through FDI used to concentrate in five ASEAN member states, namely, Indonesia, Malaysia, Singapore, Thailand and Viet Nam, mostly in automotive and electronics industry, however, further progress of trade liberalization and improvement of intra-regional physical connectivity would benefit other countries and sectors in the future.<sup>10</sup> Institutional support of the Japanese agencies such as JETRO, SME Agency and SMRJ, proved to be successful in providing market information, business consulting, arranging business-to-business relations with ASEAN counterparts, as well as in assisting the Japanese MSMEs in the realization phase of investment. Summing up, the Japanese MSMEs are expected to increase continuously their presence in ASEAN, including FDI, both due to growth prospects and high market openness of the region, as well as partially disappointing macroeconomic scores of Abenomics, then, revitalization policy of the Japanese Prime Minister Shinzo Abe (for further studies on Abenomics see [Bobowski, Drelich-Skulska 2016,]) and deteriorating Sino-Japanese political relations since 2012, that inspire strategy of diversification.<sup>11</sup>

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<sup>10</sup> According to DBS Group Research of March 2016, the percentage of the Japanese enterprises utilizing preferences under free trade agreements (FTAs) such as ASEAN-Japan Comprehensive Economic Partnership when trading with ASEAN, increased in the years 2008–2015 from 21 to 47%. Moreover, physical connectivity may be enhanced by investment financed by the newly established China-led Asian Infrastructure Investment Bank (AIIB) with registered capital of 100 billion USD and recently announced Japanese infrastructure package of 110 billion USD. Consequently, over 70% of surveyed Japanese entrepreneurs consider expansion in Viet Nam or Indonesia within 3 years, over 60% – in Thailand, while in China – less than 50% [DBS Group Research 2016].

<sup>11</sup> Namely, many Japanese enterprises decide on implementation of the so-called “China+1” strategy nowadays, namely, seek for investment opportunities in ASEAN to assist already established manufacturing facilities located in China to address the problem of rising labour and land prices, as well as political uncertainty regarding bilateral tensions between Beijing and Tokyo [Bobowski 2016, p. 103].

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