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Comparative study on regulatory and policy frameworks for promotion of startups and SMEs in Japan, the Republic of Korea, Malaysia, and Thailand

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ADB Working Paper Series

COMPARATIVE STUDY ON REGULATORY AND POLICY FRAMEWORKS FOR PROMOTION OF STARTUPS AND SMES IN JAPAN, THE REPUBLIC OF KOREA, MALAYSIA, AND THAILAND

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Abstract

The vital factors which can facilitate the development of startups and SMEs in markets are appropriate regulatory and policy frameworks. However, there are differences in the frameworks that may contribute to different levels of development in startups and SMEs in Japan, the Republic of Korea, Malaysia, and Thailand. This paper thus focuses on a comparative study of these frameworks in order to identify possible challenges among the frameworks in those countries. The paper shows that governments in those countries adopt similar regulations and policies that help stimulate the creation of startups and SMEs. The paper presents a comparison of the frameworks in those four countries. The paper also reveals that there are challenges in the regulations and policies for startups and SMEs in Japan, the Republic of Korea, Malaysia, and Thailand.

Keywords: regulations, policies, SMEs, Japan, Republic of Korea, Thailand, Malaysia

JEL Classification: K23, K29

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1. INTRODUCTION

Startups and small and medium-sized enterprises (SMEs) are important drivers for economic and innovative developments. Countries give attention to formulating and adopting regulations and policies which provide incentives and encouragement for the proliferation of startups and SMEs. There are also various programs for startups and SMEs that can stimulate overall economic development. Startups and SMEs comprise the majority of businesses and can provide significant value added to economic development (OECD 2019). Startups and SMEs on the small scale of businesses play an important role in interacting with communities and creating innovative products and services for customers in a market economy. This is because within the digitization of an economy, startups and SMEs are the agents of change in a current market toward the new structure of that market. Governments in countries have to make sure that laws, regulations, and policies can support the creation of startups and SMEs. Most countries thus adopt their own regulations and policies to encourage startups and SMEs.

In Japan, the Republic of Korea, Malaysia, and Thailand, the governments adopt regulations and policies that help encourage their startups and SMEs with a view to improving overall economic productivity and innovation. While those four countries pursue their own regulatory and policy approaches in supporting startups and SMEs, there are some differences and similarities. These differences and similarities represent the core content of the paper by focusing on a comparative study of the regulatory and policy frameworks. The comparative study aims to generate understanding of the regulations and policies for startups and SMEs in these countries. The paper also presents some challenges and issues regarding the regulations and policies for startups and SMEs. The paper is divided into four parts. This first part represents an introduction to the paper. The second part discusses general ideas on regulations and policies supporting startups and SMEs. The third part of the paper describes the regulatory and policy frameworks for startups and SMEs in promoting the four countries. The fourth part explores comparative perspectives of the regulatory and policy frameworks in these countries. It also examines some of the challenges of the regulatory and policy frameworks. The last part concludes the paper and presents policy implications for the development of regulations and policies for startups and SMEs in these countries.

2. REGULATIONS AND POLICIES SUPPORTING STARTUPS AND SMES

Before looking at an overview of regulations and policies for startups and SMEs, it is important to discuss the definition of startups and SMEs. There are a variety of startup and SME definitions from different countries. The paper applies a mixture of policy frameworks on SME definitions from Japan, the Republic of Korea, the EU, the US, Malaysia, and Thailand in which startups and SMEs are *“non-subsidiary, independent firms in which employ fewer than 300 employees and the business turnover does not exceed US\$50 million”* (MSS Korea 2019; OECD 2005; SME Agency Japan 2019; SMEcorp Malaysia 2019; Thailand 2018). In addition, it may be argued that startups are different from SMEs in that startups are still in an initial stage of business and can be considered temporary businesses created to search for a repeatable and enlargeable business model (Blank 2010). However, this paper considers startups to be within the scope of the definition of SMEs as startups are small businesses whose aim is to sustain

market competition by offering new products or services. Thus, startups are not different from small businesses, which have a similar objective of succeeding in a market economy. Thus, in this paper, a startup is an initial small business classified within the scope of SMEs.

Startups and SMEs are vital economic drivers, delivering efficiency and productivity in countries. Startups and SMEs are the primary source of job creation and represent the vast majority of businesses in all sectors (OECD 2019). Startups and SMEs are a vehicle for entrepreneurship giving employment and social stability and innovative and market competition (Thurik 2004). In general, SMEs contribute to more than one third of GDP in developing countries and account for 52% of employment (OECD 2018). According to the ILO, during the period 2003–2016, the number of full-time employees in startups and SMEs increased from 79 to 156 million (ILO 2018). The increase led to an improvement in countries' level of economic development and a change in the economic structure due to the reduction of poverty (ILO 2018). Governments have to craft effective regulatory and policy frameworks to support startups and SMEs. These frameworks are in the form of: special assistance for the establishment of startups and SMEs; tax exemptions and incentives; specific laws and regulations permitting governmental support, training, and information for startups and SMEs; initial grants, research grants, financial support, and investment matching. Governments, with the aim of increasing the number of startups and SMEs, adopt regulations and policies for promoting their establishment. Governments also shape their regulations and policies to ensure that these regulations and policies are not barriers to startups and SMEs beginning their business journey in the market. Governments may provide knowledge centers and training on how startups and SMEs can proceed with the regulatory process in order to obtain initial registration for their businesses (OECD 2020).

In addition, tax exemptions and incentives are vital regulatory and policy frameworks for facilitating the development of startups and SMEs. All businesses pay high attention to tax compliance because tax is a vital legal cost for them. Startups and SMEs must make sure that their businesses are tax compliant and able to pay taxes. Countries aiming to build up startups and SMEs may provide easy tax-compliant schemes or tax exemptions in order to encourage startups and SMEs (Kamleitner 2012). In the EU, tax is used as an incentive for SMEs by way of preferential tax rates and reductions in tax liability (Bergner et al. 2017). The incentive is to support the creation and operation of SMEs. In OECD and EU countries tax incentives have also been adopted for venture capital and to foster the investment in SMEs and startups. The objective of tax incentives under venture capital is to make sure that there is sufficient capital directed toward startups and SMEs (European Commission 2017).

The passing of specific laws and regulations related to startups and SMEs is also a vital mechanism for supporting startups and SMEs. Various countries have passed specific laws and regulations in order to establish specific government agencies for SMEs and to use legal text suggesting the promotion of SMEs in these countries. A report by (Binh, Dung, and Trong 2017) shows that various countries adopted specific laws in order to build up regulatory frameworks for promoting startups and SMEs. These specific laws are assigned as the underlying mechanisms for ensuring that SMEs have special preference and support from governments. The laws and regulations to some extent direct government agencies to formulate economic policies that facilitate the development of startups and SMEs. In some cases, these specific laws and regulations are linked with government budgets for feed-in grants for startups and SMEs.

Startups and SMEs can also have special financial access in terms of seed funding, startup grants, special loans, venture capital, and loan guarantees. The access to financial support is to encourage their initial setting up or research for innovation (OECD 2012). The example from the US is that the office of small business administration cooperates with various organizations to offer grants for SMEs (US SBA 2020). In some cases the grant can lead to venture capital between startup SMEs and large corporates. In the EU, grants and income subsidies provide capital for startups and SMEs to stimulate entrepreneurial activity (OECD 2014). Financial access and support are the key elements because startups and SMEs in many cases lack the finance to maintain their businesses. Governments tend to issue various regulations and policies that require financial institutions to provide loan schemes for startups and SMEs. To some extent, governments regulate SMEs' credit guarantee system, which can provide vital financial support for startups and SMEs because in most cases startups and SMEs lack the collateral assets for loan guarantees resulting in them having difficulty raising money for their businesses (OECD 2014; Yoshino and Taghizadeh-Hesary 2015).

Due to concern over asymmetric information, governments provide training and consultation courses for startups and SMEs. Startups and SMEs lack business information, leading to an inability to keep up with the changing markets (Yoshino and Taghizadeh-Hesary 2016). Governments provide training and consultative courses to ensure that startups and SMEs can at least obtain sufficient business knowledge to enable them to compete equally with large corporates in the market. Startups and SMEs are reluctant to invest in training because training increases business costs and some training courses do not answer the specific needs of SMEs (Jayawarna 2007). Additionally, startups and SMEs in pursuing their business are no different from large corporates in having to understand accounting and tax reporting, human resource management, financial management of costs and benefits, IT, and other knowledge related to specific business sectors. Governments in this regard become supporters that provide training and consultative schemes related to the business sustainability of startups and SMEs (Farvaque, et al. 2009).

Governments in different countries utilize a variety of regulations and policies that can be combined into a supportive framework for startups and SMEs. However, with increasing attention to research and innovation, governments tend to gear up their support for startups and SMEs with the agenda of tapping into new research frontiers and commercialization of innovation (Bellavitis et al. 2017). Governments, while adhering to the variety of regulations and policies supporting SMEs, ensure that the regulations and policies stimulate innovation and research among startups and SMEs. In some cases, governments play key roles in bridging startups, research from academic institutions, and venture capital to develop new businesses (Croce, Grilli, and Murtinu 2014). Startups and SMEs are incentivized to innovate new products and services to meet market demand, equipping their business to achieve technological advancement (Intarakumnerd and Goto 2016). Regulation and policy frameworks provide support for the development of startups and SMEs but the recent trend is for frameworks to give more attention to supporting startup businesses and technological innovation.

3. REGULATION AND POLICY FRAMEWORKS FOR THE PROMOTION OF STARTUPS AND SMES IN JAPAN, THE REPUBLIC OF KOREA, MALAYSIA, AND THAILAND

Having discussed in the first part the overall ideas on the regulation and policy frameworks for startups and SMEs, the second part of this paper aims to explore the specific frameworks in Japan, the Republic of Korea, Malaysia, and Thailand. This part of the paper leads to the comparative perspective in the fourth part of the paper.

3.1 Regulation and Policy Frameworks for the Promotion of Startups and SMEs in Japan

Consideration was first given to the development of SMEs in Japan in 1945, when the government adopted basic tools for SME policies (SMEA Japan 2020). In 1948, the government established the Small and Medium Enterprise Agency as the main agency for initiating SME policy and supporting SME development (SMEA Japan 2020). The agency initiated various SME policies that helped to encourage the development of SMEs in Japan. The government also adopted a specific law for SMEs, namely the Small and Medium-Sized Enterprise Cooperatives Act (Act No. 181 of 1 June 1949). The purpose of the act was to help SMEs to secure business opportunities and to maintain fair economic activities for improving the Japanese economy.¹ The government also initiated a tax reform that facilitated simple bookkeeping and easier process of a tax return. The reform of the tax system contributed to the improvement of financial accounting and the strengthening of SMEs' financial systems (SMEA Japan 2020). The Japanese economy, during the period 1955–1972, experienced significant booms and an increase in the number of SMEs, which played an important role in stimulating the economic growth during the period (Sato 1989). The government, by adopting economic regulations and plans, supported the increase in the number of SMEs, believing that SMEs are important for achieving economic efficiency and productivity (Matsushima 2001). In 1963, the Japanese government issued the Small and Medium-sized Enterprise Basic Act (No. 154 of 1963) with the objective of creating:

*comprehensive measures for small and medium enterprises by establishing the basic principles, basic policies, and other basic matters relating to measures for SMEs and clarifying the responsibilities, etc. of the state and of local public entities, so as to contribute to the sound development of the national economy and improvement in the quality of life of the people.*²

From the SMEs Basic Act 1963, the government planned and implemented promotional measures, supportive financial schemes, and consultative programs for SMEs. The government later amended the SMEs Basic Act 1963 in 1999 in order to ensure that the legal underlining could keep up with the rapid changes in startup SMEs. The 1999 Amendment led to important changes in government supportive schemes by:

¹ Small and Medium-Sized Enterprise Cooperatives Act (Act No. 181 of 1 June 1949) Article 1.

² Small and Medium-sized Enterprise Basic Act (No. 154 of 1963) Article 1.

- *Promoting business innovation and startups and promoting creative business activity among SMEs;*
- *Strengthening the business fundamentals of SMEs by facilitating the acquisition of business resources by SMEs and improving the fairness of transactions involving SMEs, etc.;*
- *Smoothing adaptation to changes in the economic or social environments by promoting business stability and facilitating the business conversion of SMEs in response to such changes, etc.;*
- *Facilitating the financing of SMEs and enhancing the equity capital of SMEs.*³

With the adoption of the SMEs Basic Act 1963 and the amendment in 1999, it is clear that the Japanese government focused its attention on supporting SMEs and the government maintained regulatory changes in order to make sure that regulations served the promotion of SMEs. The importance of the 1999 amendment is shown by the fact that the government initially recognized that it was necessary to move SME schemes toward startups under flexible regulatory and policy frameworks. Japan not only stipulated specific laws and regulations to support startups and SMEs, it also provided policies as a tool to promote startups and SMEs. The current supportive frameworks for startups and SMEs in Japan are exhibited in Table 1 below:

Table 1: Regulation and Policy Framework for Startups and SMEs in Japan

Major SME Regulations and Policies	Supporting Schemes
Management Support	<ul style="list-style-type: none"> • Startups and ventures • Business innovation • New collaboration • Business revitalization • Employment and human resources • Globalization • Trade practices and public procurement • Business stability • Mutual aid system • Small and medium manufacturers • Technological innovation, IT, and energy efficiency • Intellectual property • SME assistance centers
Financial Support	<ul style="list-style-type: none"> • Safety net guarantee program • Safety net loans
Fiscal Support	<ul style="list-style-type: none"> • Taxation advice and support • Accounting • Advice on Companies Act • Advice on business succession
Commerce and Regional Support	<ul style="list-style-type: none"> • Revitalization of commerce • Improvement of regional industries • Collaboration between agriculture, commerce, and industry • Knowledge sharing through "Meet and Experience Regional Attractiveness" campaign

Source: SMEA Japan (2020).

³ Small and Medium-sized Enterprise Basic Act (No. 154 of 1963) Amended 1999 Article 1.

In addition to the existing support shown in Table 1 above, the Japanese government started an initiative for startups called “J-Startup,” aimed at attracting and incubating internationally competitive and winning startups with a view to them staying in Japan (METI Japan 2020b). J-Startup also encouraged private sectors to support the establishment of startups and SMEs by allowing corporates to take part in venture businesses with startups. It is estimated that the venture business will be worth around \$1 billion by 2023 (METI Japan 2020b). Venture businesses are established through cooperative mechanisms between government and private support for startups and SMEs. Examples of joint support for startups and SMEs in Japan are presented in Table 2 below.

Table 2: Government and Private Cooperative Supports Under J-Startup

Support by the Private Sector	Support by the Government
<ul style="list-style-type: none"> ✓ Providing business space and support grants with preferential treatment (office space, vacant space within factory, training facilities, and showrooms, etc.) ✓ Working together in doing experimental studies with robots, products, and parts, and infrastructure network providing the test environment and analysis equipment ✓ Providing acceleration programs and granting preferential treatment in manufacturing support programs ✓ Providing advice by specialists and human resources with know-how ✓ Referring startups to their customers and related companies 	<ul style="list-style-type: none"> • Allowing startups to use the official logo of J-Startup (branded as a certified company) • Publicizing through a dedicated website and domestic and overseas media outlets • Welcoming startups on overseas missions led by ministers and other government officials • Assisting in exhibiting at large-scale overseas and domestic events • Granting preferential treatment in support measures such as subsidies, and simplifying procedures • Providing business matching (individual connections to executives of large firms, ministries, and agencies) • Utilization of a regulatory sandbox system • Handling requests related to regulations

Source: METI Japan (2020a).

The policy support also includes a facilitated visa option for overseas persons who are classified as startups. The policy is aimed at increasing the attractiveness of establishing a startup in Japan (MEIT Japan 2020). Thus, the government has implemented a variety of effective regulations and policy frameworks aimed at nurturing the development of startups and SMEs in Japan.

3.2 Regulation and Policy Frameworks for the Promotion of Startups and SMEs in the Republic of Korea

After the Korean War, in the 1960s and 1970s the government of the Republic of Korea initiated policy to stimulate the development of SMEs through five-year economic development plans (Sung, Kim, and In 2016). However, the government focused on creating heavy industries and directed policy support mainly toward large-scale businesses and manufacturing (Dollar and Sokoloff 1990). The government later believed that SMEs were the main elements for economic growth as SME manufacturing and businesses exceeded the economic contribution from the large manufacturing enterprises (Sung, Kim, and In 2016). In the 1980s, the government changed its primary policy of supporting large-scale businesses to being more SME-friendly. The government implemented massive reform policies in an effort to build up SMEs in the marketplace. The SME policy was emphasized by Article 123 of the Korean constitution, which stipulates that “the state should protect and promote SMEs.”

In adhering to the legal requirements in the constitution, the governments passed various laws, regulations, and policies aimed at promoting and protecting SMEs. In 1996, the government established the Small and Medium Business Administration (SMBA) as the principal agency working on the promotion of SMEs (MSS Korea 2020a). To strengthen the institutional support provided by the SMBA, the government also issued many laws of regulatory significance in the promotion of SMEs. A list of the various laws passed to support SMEs can be seen in Table 3 below.

Table 3: Laws Passed to Support SMEs in the Republic of Korea

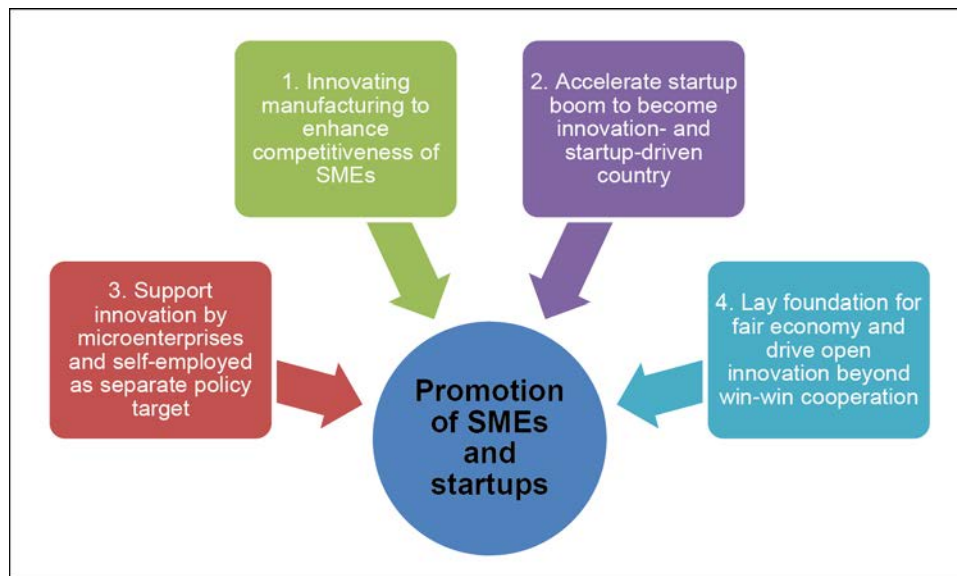
1. Framework act on small and medium enterprises	2. Special act on support for small urban manufacturers
3. Act on facilitation of purchase of small and medium enterprise-manufactured products and support for development of their markets	4. Small and medium enterprise cooperatives act
5. Act on special cases concerning the regulation of the special economic zones for specialized regional development	6. Small and medium enterprises promotion act
7. Act on the protection of and support for microenterprises	8. Special act on support for human resources of small and medium enterprises
9. Act on special measures for the promotion of venture businesses	10. Special act on the development of traditional markets and shopping districts
11. Support for small and medium enterprise establishment act	12. Act on support for female-owned businesses
13. Regional credit guarantee foundation act	14. Act on the promotion of collaborative cooperation between large enterprises and small-medium enterprises
15. Act on Support for Protection of Technologies of Small and Medium Enterprises	16. Act on the promotion of technology innovation of small and medium enterprises
17. Act on Special Cases Concerning Support for Techno-parks	18. Promotion of disabled persons' enterprise activities act
19. Korea Technology Finance Corporation Act	

Source: MSS Korea (2020b).

The above list of laws issued by the government to facilitate the development of SMEs in the Republic of Korea represents a real effort on the part of the government to provide a legal climate, stimulating SME development. Along with this list of laws, the Framework act on small and medium enterprises is considered as the primary law for the promotion of SMEs. The act is issued so as to provide for basic matters concerning the direction setting for SMEs and measures for promoting SME growth and facilitating the development of the Korean national economy.⁴ According to the framework act, the government must ensure that SMEs continue to increase in number and must provide assistance to SMEs in the market.

The government not only provides legal support through the various laws but also policies that promote and facilitate the development of SMEs. Examples include tax incentives, credit guarantees, and special loans for SMEs (Deloitte 2019). In accordance with the Korean Ministry of SMEs and Startups, the current elements of policies for promoting SMEs are presented in Figure 1 below:

⁴ Framework act on small and medium enterprises (2007) Amended 2016.

Figure 1: Ministry of SMEs and Startups—Policy Direction of the Year

Source: MSS Korea (2020c).

What can be seen from the Republic of Korea is that the government prepared legal instruments and policies to support startups and SMEs. The government recently has maintained its focus on creating innovative startups and SMEs. In addition to the available laws and policies for SMEs, the government ensures that startups are able to connect with joint venture investment and research from universities (Han 2019). This helps boost the use of research and innovation by universities through startups combined with venture investments. The Republic of Korea has various regulatory and policy frameworks in place for promoting startups and SMEs. The focus of the government's supportive frameworks for startups and SMEs is on facilitating innovation with a view to enhancing the Korean economy.

3.3 Regulation and Policy Frameworks for the Promotion of Startups and SMEs in Malaysia

Similarly to Japan and the Republic of Korea, Malaysia has embarked on establishing regulation and policy frameworks in support of startups and SMEs. The Malaysian government founded a special agency for SMEs, the Small and Medium Industries Development Corporation (SMIDEC), in 1996. SMIDEC was under government direction to create, and facilitate the increase of, startups and SMEs in Malaysia. The government gave priority to the development of SMEs by stipulating a supporting plan for SMEs in the Second Industrial Master Plan 1996–2005 (Chin and Lim 2018). This plan stipulated support policies for SMEs such as facilitating access to markets, increasing technology capabilities, enhancing the adoption of ICT, and increasing access to finance (Chin and Lim 2018). The Third Industrial Master Plan 2006–2020 also highlights the significance of promoting startups and SMEs. This third plan has identified six key challenges faced by SMEs, namely: innovation and technology adoption; human capital development; access to financing; market access; legal and regulatory environment; and infrastructure. The third plan highlights that government has to ensure that assistance is given to startups and SMEs in dealing with those challenges. This can be seen in Chapter 5 of the Third Industrial Master Plan, which states: *“For SMEs in both the manufacturing and*

services sectors to contribute significantly to the realization of the long-term competitiveness of the country, five strategic thrusts have been set:

- 1) enhancing the competitiveness of SMEs;*
- 2) capitalizing on outward investment opportunities;*
- 3) driving the growth of SMEs through technology, knowledge, and innovation;*
- 4) instituting a more cohesive policy and supportive regulatory and institutional framework; and*
- 5) enhancing the growth and contribution of SMEs in the services sector.”*

According to the master plan, 15 government ministries and more than 60 agencies have to cooperate in supporting the development of startups and SMEs. The plan controls all government agencies and provides public recognition on how government will pursue their policy toward startups and SMEs. SMIDEC, which was later renamed SMEs Corp in 2009, drives the plan for SME promotion. SMEs Corp's policy to promote startups and SMEs is that it will assist startups and SMEs in terms of: capacity building, market access, financial support and guarantees, branding development, technology change, Bumiputera, credit rating, and awards to SMEs (SME Corp 2020b). In addition, SME Corp and government agencies have adopted various policies to follow RMKe-11, which is the strategic government policy to foster the development of SMEs. The strategic details of RMKe-11 are shown in Table 4 below.

Table 4: Malaysia RMKe-11 for Promotion of SMEs

Strategic Thrusts	Related Measures
Enhancing inclusiveness towards an equitable society	(i) Provide financing and training for households to venture into entrepreneurship (ii) Increase productivity of farmers, fishermen, and smallholders through adoption of modern technology (iii) Encourage adoption of ICT to enhance market access by microenterprises (iv) Enhance integrated entrepreneurship programs that include integrated entrepreneurship development packages from startup to market product placement
Accelerating human capital development for an advanced nation	(i) Improving labor market efficiency to accelerate economic growth by improving labor productivity and management of foreign workers (ii) Transforming businesses to meet industry demand
Strengthening infrastructure to support economic expansion	(i) Unleashing growth of logistics and enhancing trade facilitation (ii) Encouraging sustainable energy use to support growth

Source: SME Corp (2020a).

In addition, the Malaysian government also set out policies for transforming ICT and innovation for startups and SMEs. The Malaysian government has not only waited for local startups and SMEs to be developed but also encouraged overseas startups to be established in Malaysia. This policy helps build up a vibrant startup landscape where innovative startups can flourish and grow in a sustainable manner in Malaysia. The Malaysia Digital Economy Corporation Sdn. Bhd. (MDEC), with government support, has issued various policies for helping overseas startups establish their businesses in Malaysia. The policies include fast-tracking and special visas for startups, tax exemptions and allowances, and a facilitated process of registrations (MDEC Malaysia 2020).

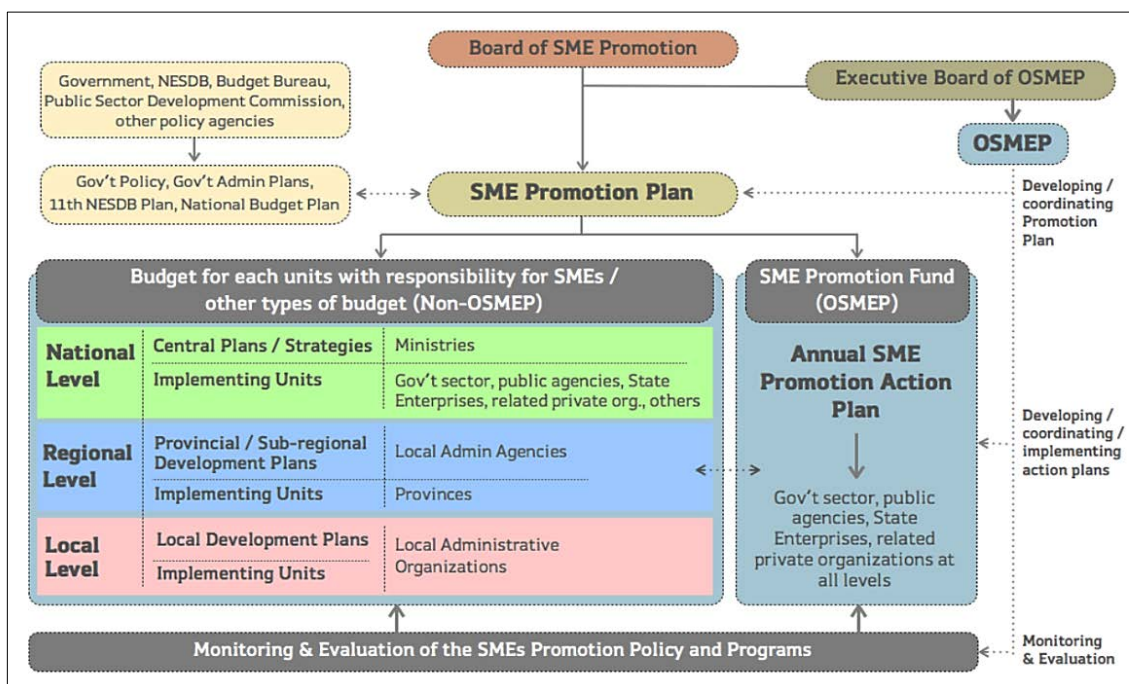
3.4 Regulation and Policy Frameworks for the Promotion of Startups and SMEs in Thailand

In the initial stage of the development from the 1940s to the 1960s, Thailand adopted laws and policies to stimulate an increase in agriculture sectors and small businesses. From the 1970s to the 1990s, the government shifted its economic policies to become an export-led country (Jansen 2001). With these economic policies, there was growth in SMEs and manufacturing served by the government's export facilitation. The export-led policy led to the expansion of SMEs and propelled the rapid growth of manufactured export (Nidhiprabha 2017). However, a policy specific to SME promotion has not been issued and the government is focused on supporting entrepreneurs aimed toward export products. The Thailand economy faced an economic crisis with the collapse of businesses in 1997–1998. As a result of this crisis, the government, realizing the importance of SMEs in economic development, enacted the Small and Medium Enterprises Promotion Act B.E. 2543 (2000) and established the Office of Small and Medium Enterprises Promotion (OSMEP) as the main agency to promote SMEs (OSMEP 2017). The SMEs Act became an important legal mechanism driving SME development. The Act stipulated SME funds to support OSMEP and lent to SMEs to increase their effectiveness and capabilities.⁵ The fund is also be used for fostering joint venture investment in relation to the development and promotion of SMEs. According to the SMEs Act OSMEP has to prepare an appropriate “Action Plan on Small and Medium Enterprises Promotion” and propose to the National Board of SMEs promotion that the Prime Minister is a Chairperson'.⁶ The board, led by Prime Minister, adopted policies progressing the development of SMEs in Thailand. The board initiated policy proposal to the government resulting in policy and planning for the promotion of SMEs (OSMEP 2017). Most of the SME promotion plans are harmonized with national economic development plans. The promotion plan links with the plan for economic development at regional and local levels in Thailand. Since the adoption of the specific laws for SME promotion and the establishment of OSMEP, SMEs have bloomed and become attractive to both local and international investors. Figure 2 below outlines the implementation of SME promotion policy connected to related policy for economic reform and development.

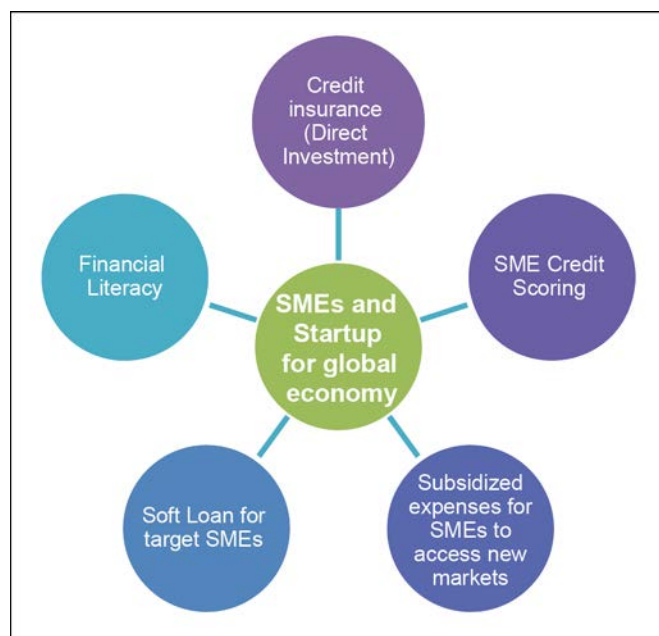
The current 4th SME Promotion Master Plan adopted by the National Board of SMEs points out important promotion schemes for SMEs, including: IT development programs for SMEs ; open access to capital and funding; support for entrepreneurship; revision of laws supporting SMEs; promotion of SME clusters and creation of value-added startups (OSMEP 2016). The plan provides greater support for SMEs with increasing consideration given to innovative startups. In addition to the plan, the government has established the SME Bank of Thailand, which is a major financial institution for SMEs. SMEs can obtain special loans with lower interest rates and can request business assistance from the SME Bank (SME Bank Thailand 2020). The Thai government also provides additional support to SMEs through loan credit guarantees and tax incentives for new startup businesses. The credit guarantees ensure that SMEs can ask OSMEP, on behalf of the government, to guarantee SMEs' loans with banks in Thailand and credit scoring. The additional financial support for startup SMEs is based on Figure 3.

⁵ Small and Medium Enterprises Promotion Act B.E. 2543 (2000) Section 34.

⁶ Small and Medium Enterprises Promotion Act B.E. 2543 (2000) Section 6.

Figure 2: Implementation of SME Promotion Master Plan

Source: OSMEP (2016).

Figure 3: Project Plan for Boosting SME 4.0 in Thailand

Source: OSMEP (2016).

The Thai government also supports startups and SMEs through tax incentives, reductions, and exemptions. The tax incentives focus on technological startups that have been approved by the National Science and Technology Development Agency (NSTDA). The technological startups that can apply for tax incentives are in the following sectors: 1) food and agriculture; 2) energy saving; 3) biotechnology business; 4) medical and public health; 5) tourism, service, and creative economy; 6) advanced materials; 7) textiles and decorations; 8) automobiles and parts; and 9) electronics, computers, software, and information service.⁷ Thailand has developed regulatory and policy frameworks to foster SMEs and refocused its frameworks on new technological startups and SMEs.

4. COMPARATIVE PERSPECTIVES AND CHALLENGES

Following the discussion about the regulatory and policy frameworks for startups and SMEs in the four countries in the above section, this part of the paper aims to compare the frameworks so as to show the similarities and differences between the frameworks among the four countries. This part of the paper also discusses the challenges for the regulatory and policy frameworks for startups and SMEs in these countries.

4.1 Comparative Perspectives

The four countries are fundamentally concerned about adopting regulatory and policy frameworks for supporting startups and SMEs. The trend in the four countries is that the initial frameworks pay attention to the promotion of SMEs and the countries later adapted the framework toward startups that have the value added from the technological advancement. While there are various similarities in the framework for SME promotion, there are some differences between the frameworks and the implementation. A brief comparison of the frameworks in the four countries is presented in Table 5 below.

According to the table above on the comparative perspective of the frameworks, the four countries have advanced their regulatory and policy frameworks for promoting startups and SMEs. However, if we rank the perspectives, Thailand seems to be lagging behind Japan, the Republic of Korea, and Malaysia. In terms of attracting overseas startups, the Republic of Korea and Malaysia have effective regulatory and policy frameworks and a government scheme to attract overseas startups. These countries have harmonized regulations on immigration for attracting international startups to establish their businesses there, while Thailand has not eased regulations on immigration for overseas startups. With regard to frameworks to make sure that startup SMEs can sustain market changes, the Republic of Korea seems to provide various regulations supporting the sustainability of startups and SMEs to survive in the market. In contrast, Thailand tends to have an approach of supporting the establishment of startups and SMEs but lacks continuity in nurturing startups and SMEs toward their sustainability in the markets.

⁷ Ministry of Finance regulation No. 337 2018(BE 2561).

Table 5: Comparative Perspective on Regulation and Policy Frameworks for Startup and SME Promotion

Frameworks for Startup and SME Promotion	Countries
1. Specific laws and policies for startup and SME promotion	Japan, the Republic of Korea, and Thailand issue specific laws for promotion of startup and SMEs Malaysia resorts to government policy and corporation as a mechanism to build up startups
2. Government grant for startups and SMEs	All four countries provide government grants for startups
3. Financial support for startups and SMEs	All four countries establish financial schemes that help support startups and SMEs – special loans and credit guarantees
4. Tax incentives	All four countries issue tax regulation incentives for startups and SMEs (business tax exemption or other tax benefits)
5. Overseas startup incentives	The Republic of Korea and Malaysia provide effective government schemes to attract overseas startups Japan provides certain incentives for overseas startups Thailand lacks a harmonized scheme and incentives for overseas startups – issues with immigration laws and foreign investment regulation
6. Private joint venture under government support and crowdfunding	Japan, the Republic of Korea, and Malaysia provide solid programs for joint ventures – established corporations can cooperate with startups All four countries set policy for crowdfunding Thailand has initial policy to support joint ventures but lacks effectiveness
7. Government program for ICT advocacy and consultancy	Japan, the Republic of Korea, and Malaysia provide platform and training course for startup ICT transformation Thailand , while having training program, lacks appropriate policy driver for startup ICT transformation
8. Nurture to sustain market uncertainty	The Republic of Korea adopts various regulations supporting the sustainability of startups and SMEs to survive in market Japan and Malaysia , in the middle ground, adopt certain programs but still do not provide long-term support for nurturing startups and SMEs to sustain market uncertainty Thailand applies initiation policy but lacks continuity to nurture startups and SMEs

Source: Author.

4.2 Challenges over Regulatory and Policy Frameworks

The four countries in paper adopted regulatory and policy frameworks that are important to the promotion of startups and SMEs. Nevertheless, there are challenges over the regulations and policies. The challenges are include:

Startup and SMEs in the Criteria of Government Support. The development of startups and SMEs fundamentally relies on government regulation and policy. Nevertheless, any government intervention in the market economy like policy assistance for startups and SMEs can also create concern over the growth of startups and SMEs. More support for startups and SMEs can lead to inefficiency in these startups and SMEs (Castillo et al. 2011). Government subsidies and support for startups and SMEs may not simply contribute to their development (Eshima 2003). Startups and SMEs may also choose to be inefficient in order to receive funding and support from the government. In

addition, in adhering to specific criteria classifying startups and SMEs for government assistance, they may prefer to be under specific criteria in order to continue receiving support such as tax incentives, low-interest rate loans, and funding benefits. This creates a situation of “Bonsai-nisation” where startups and SMEs do not aim to grow in order to continue receiving government support. In implementing regulatory and policy frameworks for startups and SMEs, it is important to ensure that the government evaluates the frameworks and is able to stimulate efficiency in these startups and SMEs rather than keep supporting them without effective results (Nakagawa 2012; Jones and Kim 2014). This paper notes that regulatory and policy support is still important and beneficial to startups and SMEs but there must be effective assessment for the level of efficiency to increase among startups and SMEs.

Financial Support with Complexity. Governments in the four countries issue policy for giving financial support to startups and SMEs but the policy may not fulfill its objective of supporting startups and SMEs. This is because the government’s financial support has to come with complicated information and requirements (Uchida, Udell, and Yamori 2012). Startups and SMEs may choose not to request support when they consider having to work through the complicated requirements from the lending institution. Startups and SMEs have to make sure that they prepare documents and collaterals, and have a good relationship with the financial institution and good financial records (Haron et al. 2013). Thus, it is recommended that financial support comes with a simplified process in order to effectively assist the needs of startups and SMEs. The simplified process will improve the lending infrastructure for optimal financial assistance (Kumar and Rao 2015). Moreover, financial support may not only come from government but also from crowdfunding from collectives. One example is the *Hometown Investment Trust (HIT)* fund, which can be a significant source of finance for startups and SMEs (Yoshino 2013). The HIT fund provides new crediting methods for financial loans and presents opportunities for startups and SMEs to obtain financial assistance from their community (Yoshino 2013). With the HIT fund, the government does not have to provide direct loans or financial support to startups and SMEs by letting the community collectively help startups and SMEs.

Policy Credibility and Certainty. While the governments in the four countries adopt effective regulatory and policy frameworks for startups and SMEs, they may find it difficult to ensure the credibility and certainty of policies when the market economy undergoes disruptive changes. Compared to large firms, SMEs have to be very adaptive to market change in order to fulfill consumer expectation, which connects SMEs’ revenue and profitability (Yeow et al. 2018). The regulations and policies that support SMEs may make it difficult for SMEs to transform themselves alongside the changing world. It will be a complicated task for government to keep their regulations and policies up to speed with the changing world. This situation mostly occurs in developing countries. One example case is a startup brewery beer business in Thailand. While being a new startup that aims to introduce a new brewery to consumers, the Thai regulations do not allow the startup to brew beer and sell beer to consumers (Ongdee 2017). This is due to the outdated laws that provide opportunities only to large businesses to brew and sell beer in Thailand (Ongdee 2017). One possible regulatory framework that enables startups to test markets is through a regulatory sandbox. The regulatory sandbox allows the government to support startup businesses and permits the startups to test their innovative businesses in the market without concern over laws and regulations (Im 2020). With the sandbox, governments refrain from regulatory intervention and rely on market mechanisms. One example is the adoption of a regulatory sandbox for startups in the Republic of Korea. The government passed a law allowing a regulatory sandbox for startups and SMEs in the information and communication technology sector (Ji-young 2019). Startups and SMEs would be able to obtain a regulatory waiver for a set amount

of time in order to test out their innovative products, services, and business models in the market (Im 2020; Ji-young 2019).

Government-led Policy for Startups and SMEs. While playing a vital role in promoting startups and SMEs, governments also have predominant roles in shaping up these startups and SMEs. The government policy and direction tend to be command and control. Some startups and SMEs have to follow the regulations and policies in order to obtain tax incentives and other support mechanisms. There is a lack of a bottom-up approach in drafting regulations and policies for the promotion of startups and SMEs. In some cases, government command and control can be considered an intervention and distortion of the markets. The command and control may stimulate the startups and SMEs in some economic sectors but will leave some sectors behind. Government to some extent pays more attention to “successful” approaches of regulatory frameworks for SME promotion but neglects the reality of their original aim to facilitate all SME growth in their countries (Xavier 2016). It is accepted that governments formulate their regulations and policies by gearing up toward startups and SMEs that create innovation for businesses. However, governments may lack consideration of business sectors such as retail and agriculture, which are fundamental to economic sustainability. Most of the recent regulations and policies are geared toward high-tech startups, which overshadow the real business sectors. It is important to make sure that government sets its regulations and policies for startups and SMEs in a harmonized manner in order to create overall sustainable businesses and economy. In some cases, regulations and policies have to ensure that startups and SMEs are able to fail. This is because startups and SMEs only test the markets. They have a higher rate of failure. The regulations and policies must help them pass any failure condition. One example is the bankruptcy laws, which must be flexible support startups and SMEs in working through their failure stages. These flexible regulations and policies can encourage startups and SMEs to test their innovative products and services in the market. The outcome will be that there will be an increase in the number of successful businesses emerging from various failed businesses.

Shortage of Evaluation of Regulatory Outcomes. Governments adopt various regulations and policies to support startups and SMEs. Nevertheless, there is a lack of evaluation of regulation and policy outcomes aimed at promoting startups and SMEs. The established regulations and policies for SME promotion may have a positive impact on startups and SMEs. The regulations and policies can have a negative impact on SMEs as well. It is difficult to specify a direct impact of a specific regulation or policy on SME development. Governments mainly proclaim the availability of regulations and policies supporting SMEs but refrain from showing how the regulations and policies can nurture or hamper startups and SMEs. Thus, it is important that governments evaluate their regulations and policies so as to make sure that these regulations and policies adhere to economic efficiency.

Lack of International or Regional Arrangement. Regulations and policies on startups and SMEs in the four countries are mostly constrained within their jurisdiction and tend to follow a similar approach to regulation and policy setting. The four countries have applied similar regulations and policies but these regulations and policies are not unique. However, the governments may have to reconsider their regulations and policies in order to make sure that these regulations and policies work well and are distinct from others. This is also the result of a lack of international and regional cooperation on regulations and policies in promoting startups and SMEs. The four countries seem to adapt their regulations and policies so as to compete in attaining SME development. Nevertheless, policy cooperation is vital to regional development and the four countries may have to

reconsider cooperating over regional SME promotion that can contribute to regional connectivity and regional development in the long term.

5. CONCLUSION

Regulatory and policy frameworks are crucial to the development of startups and SMEs. The frameworks in general come with preferential assistance for startups and SMEs, such as tax incentives, specific regulations, training courses, initial funds, and investment matching. The frameworks contribute to the increase and success of SMEs. This paper explores the regulatory and policy frameworks for startups and SMEs in Japan, the Republic of Korea, Malaysia, and Thailand. The four countries maintain similar frameworks so as to ensure the development of SMEs. The countries have developed regulations and policies for assisting the growth of startups and SMEs. A recent development regarding frameworks is that countries pay attention to value-added and innovative startups. The paper explains the difference in the elements and the effectiveness of implementation in promoting startups and SMEs. The paper also examines some challenges concerning the regulatory and policy frameworks that affect startups and SMEs. The challenges include complicated the criteria for government support and finance, policy creditability, government-centralized policy, a shortage of assessment of policy outcome, and a lack of regional cooperation on policy.

The policy implications are that governments in the four countries would have to focus on the evaluation of the current frameworks for startup and SME promotion and give consideration to simplifying the process for requesting support and to effective determinants in facilitating the growth of startups and SMEs. Governments also have to ensure that their frameworks fulfill the needs of the SME community. The international and regional cooperation on SME regulations and policies facilitates the connectivity of regional startups and SMEs among the four countries.

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