

# TAKING A SNEAK PEEK AT THE FUTURE WORLDS OF ENTREPRENEURSHIP IN SOUTHEAST ASIA

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What do we mean when we speak of entrepreneurship? We will be focusing on entrepreneurship of opportunity: that is, when people embark on entrepreneurial activity because they identify a unique idea or advantage that they believe will add value to society.<sup>1</sup> This means that not all self-employed or individual-owned businesses fall into our purview; we are interested solely in businesses originating from the opportunities that arise from the unique gaps that they identify. The core element here is the voluntary undertaking of risk.

<sup>1</sup> Fairlie, R. W., & Fossen, F. M., Opportunity versus necessity entrepreneurship: Two components of business creation, *Discussion paper series*, IZA Institute of Labor Economics, January 2018 ↗.



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We started by taking a broad view. We narrowed it by asking ourselves, what is the location that we are focusing on? Ours is Southeast Asia (SEA). Some of this region's characteristics had implications when we were designing our scenarios, which we will explore later. After selecting our location, we narrowed our insights further. To do this, we divided the entirety of the economy into four dimensions that were relevant for us. It is possible to divide the economy into more segments, but we decided on four to minimize overlap. These four dimensions were political environment, economic conditions, social context and, finally, technological context. We call these 'dimensions' because they are specific aspects of the world that we took into account to identify and track drivers.

## So, what are drivers?

Drivers are the various forces in each dimension and their effects determine what will occur in future. Through studying these drivers, we can design scenarios for the future, based on the direction of each force. A force can be both positive and negative and can be identified by asking why SEA is experiencing such high growth in entrepreneurship and why there are so few entrepreneurs.<sup>2</sup>

The process of deciding what the drivers are for a given context is highly subjective: what is relevant to a particular context may not be for another. We went through multiple studies and interviews to understand what the drivers might be. Next, we decided on the importance of the drivers based on the context, as set by location. We ranked the drivers in importance by scoring them for uncertainty and impact. Uncertainty refers to the degree of ambiguity each driver causes for the entrepreneur in the process of running their business. Impact refers to the degree of effect or influence this particular driver has on a person's decision to start their business or on the performance of their business. The more uncertainty the driver causes for the entrepreneur and the organization, the more important it is to track it, and the same applies with impact. Therefore, we ranked the drivers in terms of the total uncertainty impact score.

<sup>2</sup> Gryn, R., *Why are there so few entrepreneurs?*, WEF, September 2018 

## What are the drivers, and how have we selected them?

Broadly, the world can be split into several dimensions, such as economic, technological, political and social. In each dimension, there are drivers that influence the extent to which entrepreneurship will flourish in a country. Each dimension can contain multiple drivers that can in turn generate many scenarios. Here, we simplify the process by discussing two key dimensions and developing a 2-by-2 matrix of scenarios. The two dimensions we will discuss here are the political and technological dimensions; however, it is possible to choose any dimension with which to carry out the following analysis.

## THE DRIVERS

These include the features of the political environment that, overall, influence a person's decision on whether to start a business. The features we identified were as follows: 1) strength of regulatory bodies, 2) daily political stability (lack of strikes and civil movements), 3) diplomacy, 4) fairness in the rule of law, 5) power hierarchy, and 6) freedom of expression.<sup>3</sup>

Some of the main drivers in the technological dimension are as follows: 1) access to knowledge, 2) incubation centres, 3) data use, 4) digitization of legal procedures and access to digital tools,<sup>4</sup> and 5) focus on R&D.

<sup>4</sup> WEF, *Digitizing entrepreneurship for impact*, September 2019 ↗

As mentioned earlier, the scores are assigned based on uncertainty and impact. To give an example: fairness in the rule of law does not cause much uncertainty to a business owner. The person is aware of how the law is enacted in their region and plans accordingly. The law does not change drastically and the changes that occur are gradual. Therefore, it has a low uncertainty score. For impact, it has a medium-to-high score. This lays the foundation for businesses and enables them to maintain a smooth and fair existence. However, because the law is very slow to change, most businesses operate in a way that suits the legal context of the situation.

We play with relatives, not absolutes. It might be tempting to look at certain numbers and make sweeping statements – for example, that a country with research spending of over 1% of GDP will have a thousand new startups a year. That is not what we are doing here. We are dealing in changes – for example, it is the case that an overall increase in research spending from year 1 to year 2 will result in an overall increase in new ventures. Also, a country with more overall research spending than another will also, on average, have a greater number of entrepreneurial ventures.

We assigned scores to each of the drivers, and we found that the two most relevant drivers were 1) strength of regulatory bodies and 2) focus on R&D.

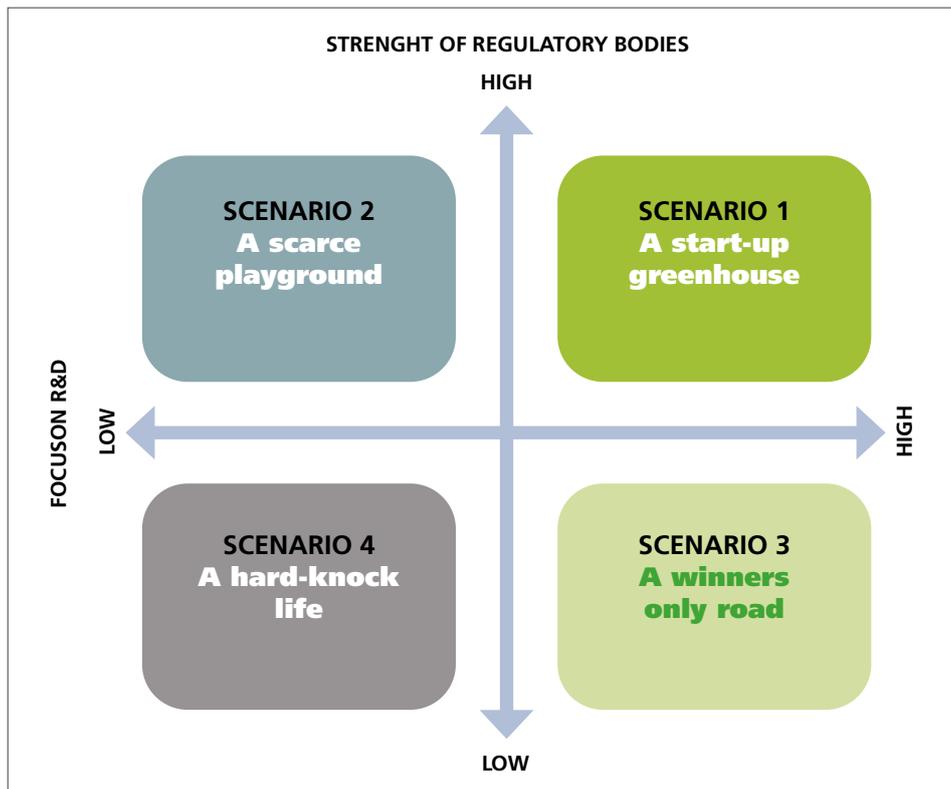
The strength of regulatory bodies is inversely proportional to the level of unethical, immoral and above-the-law action across the country. This includes the amount of bribery and other 'under-the-table' action that is required for the running of a business. Rampant corruption is a problem in many countries in Asia, and the regulatory forces in these countries are usually unable to keep it in check. The extent of this problem, and the steps taken to strengthen regulatory drivers, can have an impact on entrepreneurs, depending on the direction the driver takes. The strength of regulatory drivers is also affected by the level of political stability within a country. Constant uncertainty in the political scene usually translates into uncertainty for the businesses that operate in that context. Also influential are the broad strategic goals of the government of the country and the extent to which they are being prioritized and achieved.

The extent to which a country focuses on R&D is a driver with long-lasting implications. R&D and businesses that result from R&D efforts take time to develop, and a focus on R&D has a great impact on the number of opportunities that arise in any given country. A focus on R&D, however, does not occur in isolation, and it reveals a lot about a country's priorities. A country with a high level of focus on R&D will also focus to a great extent on data use and access to knowledge and information. Great R&D means greater digitization and access, which means the players are no longer taking part in a zero-sum game and will receive increasing returns on their efforts.<sup>5</sup>

<sup>3</sup> 'Strength of regulatory bodies' and 'fairness in the rule of law' are very similar; however, they vary in a core aspect. 'Strength of regulatory bodies' refers to the overarching bodies that oversee a country, and their ability to regulate as well as adapt to the changing world – for example, how quickly they are able to regulate new business models that come about. An example of this would be Airbnb and the regulatory battle caused by the business model it used. 'Fairness in the rule of law' refers to the laws in a country as well as how the laws are set and whether people feel these laws and regulations to be fair. An example would be IPP laws: how are the IPP laws set in a country, and to what extent do people experience them as fair? To further explain the difference, the example of corruption can be used. While corrupt, under-the-table dealings may be unacceptable in law, weak regulatory strength may allow them to happen or may even encourage them. Laws are difficult to change and the process takes years, and the spirit of the law remains stable more or less throughout. The strength of regulatory bodies, however, can change more quickly. An example would be the Philippines, which has made massive strides in the quality of its regulatory bodies in the past decade, becoming one of the better-regulated countries in the region. E.g.: EY, *How the Philippines is planning for a brighter future*, November 2019 ↗.

<sup>5</sup> WEF, *How digital entrepreneurs will help shape the world after the COVID-19 pandemic*, June 2020 ↗.

## THE SCENARIOS



For each of the segments, we have included an example of a country in the region. We selected them using regulatory quality value <sup>6</sup> and R&D expenditure per GDP ratio.<sup>7</sup> While the latter is straightforward, the former requires some explanation: the Worldwide Governance Indicators project<sup>8</sup> assesses countries (a total of 200) over six dimensions: Voice and Accountability; Political Stability and Absence of Violence; Government Effectiveness; Regulatory Quality; Rule of Law; and Control of Corruption.

<sup>6</sup> World Bank, *Regulatory quality (in 2019)*, n.d. ↗.

<sup>7</sup> World Bank, *Research and development expenditure (% of GDP)*, n.d. ↗.

<sup>8</sup> The Worldwide Governance Indicators (WGI) project: ↗.

### *Scenario 1: A startup greenhouse*

A region with high regulatory strength and a strong focus on R&D.

The region has strong regulatory bodies and, overall, there is a focus on R&D in the country. This means that innovation and research-backed decisions are highly rewarded and supported by the government, and the regulatory bodies more or less make decisions backed by research knowledge. It also means that in this world fair practices and the rule of law are maintained so that there is minimal uncertainty for businesses regarding the way games are played in the economy.

Due to the high level of R&D that is supported in this world, there are numerous opportunities and thus numerous startups. Governments play a central role in communicating with different stakeholders and ensure that they keep up with the rapid transformation that is constantly taking place. In turn, governments rely on industry players and researchers to provide critical and timely information. To this end, governments have also become more proactive, flexible and research-oriented. The SEA market is becoming highly valuable and products curated towards this group are abundantly available as well as profitable. These countries have become key strategic players in global trade and, as such, have become net exporters of ideas and experience reverse brain drain.

Regulatory and political processes have become more transparent and people participate in the political process far more than they did in the past. SEA shows consistently high levels of growth and is known to be a hub for startups and SMEs, with strong regulatory support as well as top-quality research work, especially in dealing with a crisis. As a result, Asia faces high growth and quickly becomes one of the most central hubs in the world.

A strong contender for this area is Singapore. Singapore spends ~2% of its GDP on R&D and according to the World Bank has a regulatory quality value of 2.16 (world median is below zero). This has put it at the forefront for innovative startups and it is preferred by many as a place to register their companies. Not surprisingly, it is often referred to as the leading startup hub.<sup>9</sup>

<sup>9</sup> World Bank, Regulatory quality (in 2019), n.d. 

### Scenario 2: A scarce playground

A world with high regulatory strength and a weak focus on R&D.

SEA sees a strong shift in people's perceptions of and behaviour towards governments, with them becoming more respected and important players in the economy. While the number of startups is comparatively low in this world, compared to the greenhouse world, it still sees a large number of new firms. There is a core difference here; that is, knowledge and ideas are imported from abroad. This means, compared to the other worlds, there is sometimes a misfit of ideas with the community. These countries are attractive markets, however, and a strong regulatory base increases investors' appetite and confidence. Therefore, we see a comparatively moderate ratio of foreign to local investment in these countries (compared to other countries).

Governments are also less flexible than in the other worlds; however, they are still well-intentioned. Despite this, there is a lag between transition in industry norms and in legal norms, which are sometimes taken advantage of. An example of this would be that of Airbnb and hotel industry regulation: while Airbnb changed the context of the hotel industry, regulations were a step behind, and this caused some friction in the implementation of the idea. To combat this, most entrepreneurs work with governments to ensure a smooth transition.

To find an example of a country in the region with these conditions is difficult, as it has grappled with regulatory issues (which explains the name we choose for this segment). Apart from Malaysia and Singapore, the countries in the region score quite poorly in regulatory quality. If pushed, we could identify the Philippines as an emerging example. But although it was one of the four countries in the region with a positive value for regulatory quality, with regard to R&D spending per GDP it was in the bottom half of countries in the region, indicating that it has focused more on improving regulatory strength. This is not to say that the Philippines is a country with particularly high regulatory strength; it is far from that. However, in comparison to other countries in the region, it performed better, and if the country continues to improve its regulatory strength we can expect to see a large flow of investment into the country for startups.

*Scenario 3: A winners-only road*

A world with low regulatory strength and a strong focus on R&D.

Most of the R&D in this world is undertaken by private ventures and they derive a high level of benefit from it. Despite being faced with regulatory challenges, many startups start businesses based on the ideas and knowledge that they receive. However, the security of their businesses, as well as access to funding, is hampered due to leakages in the political system. Countries have low levels of trust in their political parties and government, and black swan events, especially negative ones, cause a lot of damage. Therefore, despite the ample opportunities present, regulatory issues mean that most startups face challenges in moving forward with their ideas, and the community does not see many solutions that help them adapt to the challenges. Overall, the number of startups is lower than it is globally, yet quite a number of ventures have been successful on the back of innovative ideas.

In the SEA region, Malaysia has fairly high levels of R&D spending (~1.44% of GDP in 2016), compared to the rest of the region. Following Malaysia is Thailand (~1% in 2017). In the regulatory quality index, they are both quite a long way below Singapore (Malaysia has a value of 0.67 and Thailand of 0.12). However, we think Vietnam is a very good example of this segment. Vietnam has a regulatory quality value of -0.26, far below the world median, but it has seen increasing R&D spending.<sup>10</sup> Vietnam's startup ecosystem has been impressive, with a focus on tech and local needs. In the global innovation index, Vietnam is placed third in the region.<sup>11</sup>

<sup>10</sup> Knoema, Viet Nam – Research and development expenditure as a share of GDP (in 2017), n.d. ↗.

<sup>11</sup> Egusa, C., & Corbett, C., An entrepreneur's guide to Vietnam's startup scene, TNW, November 2018 ↗.



*Scenario 4: A hard-knock life*

Low regulatory strength and a weak focus on R&D.

Countries that move forward with this set-up will find it very difficult to scale up after a certain level of growth and will find a lot of potential is wasted in terms of opportunity and demographic dividend. There will be a lack of startups able to utilize opportunities, due to the lack of know-how and regulatory/political support and the obstacles presented by corruption. Most people will prefer not to invest in the country, and a lot of funding will flow out of it, making investment hard to find. This will be yet another obstacle for entrepreneurs, resulting in an environment that inhibits the growth of startups. Therefore, it is not surprising that under this scenario the number of startups will be quite low, and the survival of those businesses that do start will be highly uncertain.

An example of this situation would be Cambodia, which has struggled with regulatory quality and also has low R&D spending. It seems that this might not be the case in future, but for the time being, the above factors make things particularly difficult for entrepreneurs in Cambodia.<sup>12</sup>

<sup>12</sup> Tharum, Cambodia's tech startups: All you need to know, May 2019 ↗.

## Bringing it all together

The question remains: why is this important and why do we bother with the whole process? Entrepreneurship has a high impact on the future of any given country, and we have gained some understanding of what that future might be by designing these scenarios. The world is not driven by certainties, but rather by the uncertain and the new, by ideas that create massive disruptions, and ideas that create opportunities out of crises. We looked at the context in SEA through the lens of our relevant drivers. Based on these scenarios, the next steps would be to prepare for these worlds and to monitor the drivers to further determine what our future may look like.

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