

FOSTERING STARTUP ECOSYSTEMS THROUGH JAPANESE ENTREPRENEURSHIP IN LOWER-MIDDLE-INCOME ASEAN ECONOMIES

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Abstract

This study explores the development of startup ecosystems and entrepreneurship in middle-income ASEAN countries, highlighting the crucial role of Japanese entrepreneurs. It examines how collaborations between Japanese and ASEAN startups can address the lower-middle-income trap (LMIT) and promote sustainable economic growth. The research underscores the importance of policy reforms in education, technical training, and human resource development to align efforts between Japan and ASEAN, fostering mutual benefits and enhancing ecosystem resilience. Using a qualitative mixed-method approach, the study identifies essential practices for successful partnerships, including effective mentorship and knowledge transfer, which significantly boost local startups' technological and strategic capabilities. Cultural adaptation is identified as vital for aligning with local business practices, market conditions, and regulatory environments, facilitating smoother integration and collaboration. Strategic investments and resource allocation by Japanese partners are pivotal for scaling startups, providing necessary financial and technical support. The establishment of long-term partnerships ensures sustained and mutually beneficial collaborations. The study incorporates a framework and emphasizes the need to expand it to address emerging technologies, institutional challenges, and policy recommendations, thereby enhancing its comprehensiveness and practical relevance. The findings offer valuable insights into building resilient startup ecosystems and fostering entrepreneurship in middle-income ASEAN countries, emphasizing the indispensable role of international collaboration in achieving long-term economic development and overcoming the LMIT, ultimately contributing to a more integrated and dynamic regional economy.

Key words: Startup Ecosystems, Japanese Entrepreneurship, Lower-Middle-income ASEAN Economies.

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1. Introduction

The ASEAN region, with its predominantly middle-income economies, is rapidly embracing digitalization, offering significant growth potential (World Bank, 2019). A major challenge is the middle-income trap (MIT), where nations struggle to move beyond middle-income status (Gill & Kharas, 2007). Japan's shift in investment priorities from developed to emerging markets, particularly ASEAN, has brought substantial capital, technology, and expertise (Oikawa & Iwasaki, 2023), which are expected to boost startup ecosystems. As these ecosystems grow, they will likely hire skilled workers and focus on cost-effective production to remain competitive. This study proposes strategies for collaboration between Japanese and ASEAN entrepreneurs, especially in lower-middle-income economies (LMIEs), emphasizing policy reforms in education, technical training, and human resource development. It also presents a framework to leverage startup ecosystems for sustainable growth and innovation.

2. Literature Review

2.1 Middle-income ASEAN's Economic Status

Since the 1960s, ASEAN economies have transitioned from primary industries to secondary and tertiary sectors, similar to the industrialization paths of Japan, South Korea, and Taiwan (Perkins, 2013). This shift has attracted multinational investments and increased foreign direct investment (FDI) (UNCTAD, 2024). Despite significant growth over the past 30 years, many Southeast Asian economies remain underdeveloped (UNCTAD, 2024; World Bank, 2024a). GNI per capita disparities are evident, with Malaysia and Thailand ranging between 7,000 and 11,000 USD, while others, notably Indonesia and the Philippines, are around 4,000 USD (World Bank, 2024a). The "Middle-Income Trap" (MIT) presents challenges for advancing to high-income status (Gill & Kharas, 2007). ASEAN can be categorized into "lower-middle-income" and "higher-middle-income" groups (Tran and Karikomi, 2019). Hara (2023) links economic development stages to MIT, highlighting the need for innovation to achieve high-income status.

2.2 Japanese Entrepreneurship to Foster Middle-income ASEAN Startups

The number of ASEAN startups securing over \$1 million in funding grew from 652 in 2015 to 4,603 in 2023, with Singapore and Indonesia accounting for over 75% of these startups (DataIndonesia.id, 2023). LMIEs, including the Philippines, Thailand, and Vietnam, along with "Infancy" economies such as Cambodia, Lao PDR, and Myanmar, are also experiencing growth (ASEAN and UNCTAD, 2022). Malaysia and the Philippines, classified as "Fast-Growing," exceeded 300 startups in 2023, up from under 40 in 2015, while Indonesia's rise to 2,479 startups earned it "Frontier" status (ASEAN and UNCTAD, 2022; DataIndonesia.id, 2023). Japan's investment focus on emerging ASEAN markets aims to strengthen economic ties and enhance startup ecosystems through technology transfer and expertise (JETRO, 2017; Oxford

Analytica, 2017). The Japan Bank for International Cooperation (JBIC) finances startups in Indonesia and Vietnam, while Japanese entrepreneurs establish incubators and provide strategic guidance (JETRO, 2010; JIC, 2024; JICA, 2023b; Lewin et al., 1998).

2.3 Adaptability of Business Models in Developing Countries

Adapting business models for developing countries presents opportunities, such as creating affordable products for low-income consumers and benefiting from low-wage economies (Aagaard & Nielsen, 2021). ASEAN's middle-income economies offer growth potential, but entering lower-middle-income markets involves high costs, regulatory and administrative challenges, and cultural differences (Hara, 2024). Success requires offering low-cost products through significant R&D and cost-effective production, which may delay profitability (Verhoogen, 2023). Fair investment practices are crucial for maintaining a positive local reputation (Ismail, Halim & El-Deeb, 2023).

3. Study Gaps, Study Purposes, and Research Question

3.1 Study Gaps

Previous research has explored Japan's growing economic ties with ASEAN, focusing on technology transfer, FDI, and entrepreneurship. However, there is a lack of targeted analysis on effective collaboration strategies between Japanese and ASEAN entrepreneurs in lower-middle-income economies (LMIEs). Most studies concentrate on higher-income countries or overlook the unique challenges of LMIEs. Additionally, the long-term sustainability and scalability of Japanese-supported partnerships and startup ecosystems remain underexplored. This highlights the need for research on strategies to foster cross-border entrepreneurial collaboration in LMIEs, addressing resource sharing, market access, and cultural alignment.

3.2 Study Purposes

This study aims to propose strategies for effective collaboration between Japanese and ASEAN entrepreneurs in lower-middle-income economies (LMIEs). It examines how these partnerships can enhance startup development, scalability, and sustainability amid unique economic and regulatory challenges. By analyzing successful collaboration models, technology transfer, and cross-cultural practices, the study seeks to provide actionable insights for strengthening entrepreneurial ecosystems. The goal is to foster sustainable economic growth through more effective and mutually beneficial collaborations.

3.3 Research Question

What are the key strategies for fostering effective collaboration between Japanese and lower-middle-income ASEAN startup ecosystems, and how do these strategies enhance startup growth, scalability, and long-term sustainability?

4. Frameworks

The proposed framework for collaboration strategy, as shown in Figure 1, examines how key factors influence the success and sustainability of startups in lower-middle-income economies (LMIEs) through Japanese-ASEAN partnerships.

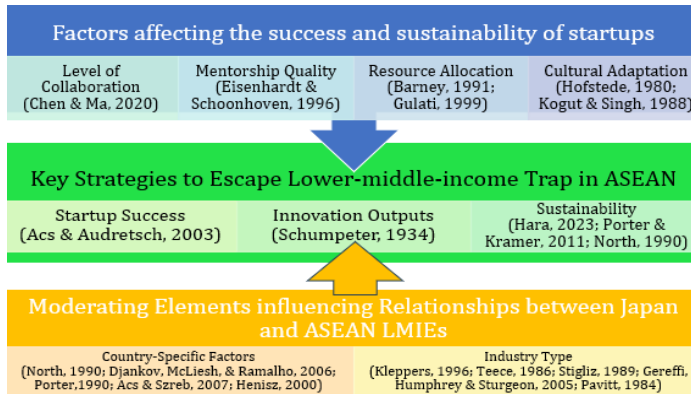


Figure 1. A Proposed Framework for effective collaboration between Japanese and Lower-middle-income ASEAN

Source: Author

The study identifies four primary independent variables: Level of Collaboration (Chen & Ma, 2020), Mentorship Quality (Eisenhardt & Schoonhoven, 1996), Resource Allocation (Barney, 1991; Gulati, 1999), and Cultural Adaptation (Hofstede, 1980; Kogut & Singh, 1988). These variables are expected to positively impact three key dependent outcomes: Startup Success (Acs & Audretsch, 2003), Innovation Outputs (Schumpeter, 1934), and Sustainability (Hara, 2023; Porter & Kramer, 2011; North, 1990). The framework also considers moderating variables, including Country-Specific Factors (North, 1990; Djankov, McLiesh, & Ramalho, 2006; Porter, 1990; Acs & Szreb, 2007; Henisz, 2000) and Industry Type (Kleppers, 1996; Teece, 1986; Stiglitz, 1989; Gereffi, Humphrey & Sturgeon, 2005; Pavitt, 1984). This framework aims to clarify how Japanese investments and collaborations influence startup ecosystems in LMIEs, highlighting effective strategies and potential challenges.

5. Methodology

As for the research design, this study employs a mixed-method approach, focusing exclusively on qualitative methods to analyze Japanese-ASEAN collaborations in lower-middle-income economies (LMIEs). By utilizing a convergent parallel design (CPD) (Creswell, 2014), it integrates data from case studies and document analysis to enhance research validity and provide deeper insights into collaboration dynamics and the effectiveness of Japanese-ASEAN partnerships (Harvard Catalyst, 2021; George, 2023).

Regarding data collection and sampling strategy, this study involves detailed case studies of both successful and failed Japanese-ASEAN collaborations across LMIEs (Cambodia, Indonesia, Lao PDR, Myanmar, the Philippines, and Vietnam). It utilizes literature, industry reports, and news articles to investigate aspects such as mentorship, knowledge transfer, resource allocation, and cultural challenges. Document analysis will examine reports from the past 5 to 10 years from international organizations and local ASEAN government bodies to understand funding mechanisms and collaboration models. The case studies will include 10 selected collaborations across different industries and types, aiming to identify best practices, pitfalls, and factors affecting partnership effectiveness and sustainability.

Concerning data analysis, document analysis identifies key trends and contextual factors in Japanese-LMIE ASEAN startup collaborations through reports, government documents, and industry publications. ATLAS.ti (Version 24) will be used for qualitative analysis, supporting data-grounded analysis aligned with Grounded Theory Approach (GTA) principles (Glaser & Strauss, 1967; Higuchi, 2017). This method reveals factors affecting success or failure, with findings integrated to provide a comprehensive understanding of the impact of Japanese investments on startup performance, highlighting best practices and challenges in Japanese-ASEAN partnerships.

6. Study Results

I analyzed 24 literature items—12 for document analysis and 12 for case studies. The review covered Japan-ASEAN relations, startup trends, culture, policy recommendations, historical developments, and current business environments. Key factors driving entrepreneurial performance in Southeast Asia include the ASEAN Guidelines and the NINJA Strategy (OECD and ASEAN Secretariat, 2020; JICA, 2023b). Japan's evolving startup ecosystem fosters mutual growth with developing countries (MRI, 2024; Flourish, 2024). Organizations such as JICA, METI, JETRO, and ERIA play crucial roles in developing startup ecosystems (METI and JETRO, 2023; Oikawa and Iwasaki, 2023). Countries, particularly the Philippines, Cambodia, and Indonesia, have enhanced their ecosystems (ADB, 2022; ADB, 2023; Gov.Ph, 2024). However, challenges such as informality, tax systems, limited financial access, and labor skill gaps affect startup success, particularly in Lao PDR and Myanmar (ADB, 2023). Vietnam and Myanmar show strong potential for expansion (EMC, 2017; ABT, 2024; Yeo, 2024). Findings are summarized in Figure 2 below.

Institutional failures (Gr=21) are a major barrier to Japan-ASEAN startup collaboration due to weak governance and inefficient institutions. **Market failures (Gr=21)** further impede growth by limiting access and creating ineffective innovation ecosystems. **Business environment (Gr=11)** is challenged by regulatory complexity and infrastructure gaps, complicating expansion. **Market conditions (Gr=8)**, such as competition and demand variability, restrict market entry. **Economic development (Gr=7)** influences partnership effectiveness through broader macroeconomic factors. **Long-term planning (Gr=6)** is essential for sustained collaboration, while **financial access (Gr=3)** remains a constraint

impacting innovation and growth. The analysis highlights that institutional and market failures, along with challenges in the business environment, are the most significant obstacles to Japan-ASEAN startup collaboration. To foster innovation and sustainable growth, it is essential to address these issues through improved governance, enhanced market access, and supportive business conditions.

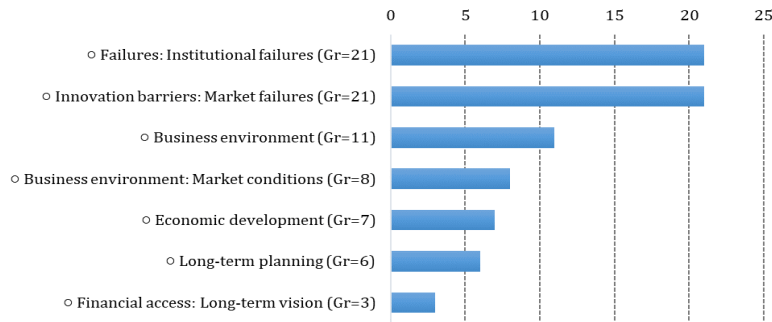


Figure 2. ATLAS.ti Outputs through Document Analysis
Source: Author

Furthermore, a review of 12 additional selected literature sources based on document analysis provides deep contextual insights into specific instances of collaboration between startups in ASEAN LMIEs and Japanese enterprises, revealing six key developments as follows.

1. **Innovation-Driven Ecosystem Support:** Japanese agencies (JETRO and JICA) promote international expansion for Japanese startups through programs, notably the Global Acceleration Hub and J-Bridge, offering financial and advisory support (JETRO, 2024).
2. **Sector-Specific Growth:** ASEAN LMIEs, particularly Vietnam and Myanmar, are rapidly expanding in fintech, healthcare, and digital services. Japanese investments include Mitsubishi's partnership with Gojek in Vietnam and support for Myanmar's fintech sector through Phandeeyar's accelerator program (Salim, 2019; TechCollective, 2024).
3. **Regional Connectivity:** JICA's projects in the Mekong region boost regional connectivity, supporting startup growth in Cambodia and Laos. Japanese enterprises are also engaging in agri-food and tech sectors in these countries (JICA, 2023a; EA, 2024).
4. **Cultural and Entrepreneurial Collaboration:** Initiatives, including the LJI SUSU events between Japan and Laos highlight the role of relationship-building in overcoming regulatory and cultural challenges, easing collaborations (LNA, 2024).
5. **Financial Innovation:** Japanese enterprises are enhancing LMIEs' financial inclusion with microfinance (e.g., AEON in Cambodia) and digital payments (e.g., Rakuten Viber in the Philippines), supporting local businesses (Phnom Penh Post, 2014; Manila Standard, 2024).

6. **Strategic Flexibility:** In Indonesia, Tokopedia's exploration of SPAC mergers and IPOs showcases Japanese investors' strategic adaptability, providing startups with growth and exit pathways (Invest Tokyo, n.a.; Jakarta Post, 2020).

7. Discussion and Conclusion

The qualitative mixed methods identified key practices for successful Japanese-ASEAN startup collaborations. Core elements include mentorship, knowledge transfer, and cultural adaptation, along with strategic investments from Japanese partners. These collaborations align with Japan's economic and geopolitical interests, fostering innovation, financial inclusion, and long-term cooperation in ASEAN's lower-middle-income economies.

Figure 1 illustrates factors influencing startup success and strategies for overcoming the lower-middle-income trap in ASEAN, emphasizing mentorship, collaboration, and resource allocation. Expanding this framework to include emerging technologies, institutional challenges, and policy recommendations will enhance its practical relevance. The study notes two limitations: the need for detailed analysis of institutional failures and the recommendation to incorporate field surveys and interviews for a more comprehensive approach.

In conclusion, this study explores the evolution of startup ecosystems in middle-income ASEAN countries, underscoring the significant role of Japanese entrepreneurs. Successful collaborations are driven by mentorship, knowledge transfer, cultural adaptation, strategic investments, and long-term partnerships. Enhancing the framework to incorporate emerging technologies and institutional challenges will bolster its practical application and support sustainable startup ecosystems in the region.

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