

**Co-operation between SMEs of Europe and
Asia as a response to the challenges of
globalization**

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1. The reasons for our conference

While the world is taking its current dramatic courses in the full view of everyone, in the background globalization is likely to continue to spark off further types of conflict and division.

Rifts which were foreseen, and which are no longer fuelled by conflicts between national states nor by the long-standing imperialism we overcame with the Second World War. Nor do they continue to be fuelled by the past rivalries of the cold war.

They are new divides: cultural, social and even religious confrontations and incomprehension, which the past 10 to 15 years of accelerated technical and economic globalization have ignored and left behind, given that the world's dominant economic and political thought was based on the conviction that regional differences would quickly become extinct with globalization.

That is why - in order to avoid a broadening of intense conflicts over values, ideologies and religious beliefs - the time has come to proceed along several priority courses with great resolution. On the one hand we must strengthen some essential elements of a new global statehood (in the financial regulation area and in security etc.) which are developing rapidly.

On the other hand it is indispensable that we remove the great lack of knowledge and much mutual cultural prejudice, broadly and on a widespread basis.

I am convinced that a conference such as this one, which aims to strengthen co-operation between Asia and Europe, held in an international city like Kuala Lumpur, will challenge all of us and all you young leaders to make profound considerations able to generate strong new reasons for convergence and bonds.

The incursion of war in the current process of globalization of the economy is an extreme case of events, and as such a volatile one due to its possible consequences. Because in addition to networks of non-territorial parties, the current conflict potentially involves a broad alliance of states, and it slots into an economic crisis which was already underway in the major economies and newly-industrialized countries. As such it requires a reappraisal of the states' economic policies and their policies to support the various different manufacturing sectors and consumption.

We therefore need to **strengthen the ways** toward strong **widespread collaboration**.

There is no doubt that economic integration has always been a **great peace factor**, and any other type of collaboration may be favorably developed in this scenario.

In particular, as regards two large regional areas such as Asia and Europe there is no doubt that **we can act on some determining factors** for the future:

Some of these are traditional and were already partially underway, such as progressive commercial integration, large company investments, and supply and sub-supply agreements etc.

Others, on the other hand, are less traditional and in any case have been less exploited to date. The latter certainly include a greater contribution from small and medium sized enterprises, ranging from joint ventures between them to policies for the diffusion of entrepreneurial skills and creativity as a new contribution to the integration of culturally and economically diverse societies.

As a consequence we shall discuss them here.

My task is therefore to develop this proposition and to explain why the contribution of SMEs - with all it signifies in terms of diffused entrepreneurial skills and the creation of managers, specialists, researchers and experts - appears to be of value for real integration between civilizations.

Indeed today SMEs can do what the markets have always been able to do in the past. And this is an area in which Italians (those speaking to you) and Malaysians (in whose country we are) have always played an important role.

So we shall try to be optimistic in the medium term. And, **as I stated earlier, we shall back what already partially unites us** in order to render mutual integration possible.

Indeed our two areas of Europe and Asia are **inhabited by societies with a wealth of social groups** that have a strong **potential to develop entrepreneurial initiatives through SMEs.**

Europe in particular has gained **interesting experiences** which are moving and **expanding to different areas** - in addition to Eastern Europe, to the Mediterranean and Latin America where clusters and SMEs are settling and reproducing, or aiding clusters of local businesses to grow and specialize. But in Asia too, as I have mentioned, the interconnections between European and local SMEs are becoming increasingly numerous.

2. The reality of the European economic model

There are around **18 million firms** in existence in Europe. Of course their distribution, density and average size varies. For example, in Italy there are **68 firms per thousand inhabitants**, 35 in France, 37 in Germany and 46 in the United Kingdom.

The European model is therefore a model of **diffused entrepreneurial skills**. A model which is rapidly being transformed into "**molecular**" **capitalism**, favored by ICT and the web - that is to say a model which historically has been characterized by territorial rootedness, by strong ties between entrepreneurs and family frameworks, by a high level of social cohesion, and by positive relationships with the local institutions.

My country, Italy, is the most extreme from this point of view, considering that 93% of businesses there have fewer than 20 staff and that they generate 70% of aggregate goods production.

The **substantial entrepreneurial density** and the diffusion of diverse "starting up" cultures across the population of Europe represent an **initial**

and fundamental competitive asset which explains why SMEs have played - and continue to play - a decisive role in the socio-economic growth and development processes and in the internationalization processes of our continent.

Indeed they are **stimulated** by the **presence of numerous suppliers**, sizeable markets, qualified labor, high diversification of institutions and services, a noteworthy flow of entrepreneurial ideas, innovative know-how, imitative processes, and institutional organizations and activities to support businesses.

This basic competitive asset (**entrepreneurial and institutional density**) which is particularly well-diffused in numerous poles and cities and in many Regions of Europe, is integrated with and **strengthened by another strategic competitive factor** i.e. **the range of industrial sectors in Europe in which there are areas of specialization** and in which SMEs constitute **a powerful continued innovation factor in the system and a powerful international competitiveness factor.**

Indeed, in general terms we can state that the existence of a highly-diversified variety of sectors plays a particularly important role in this period.

This is partly due to the **transversality** of a **growing number of technologies** and is also due to the **removal of barriers between businesses** and between possibly very diverse sectors that the new business culture has been pursuing over recent years, with its particular focus on

financial results (through acquisitions, the creation of conglomerates, and the pursuit of network economies etc.).

These central phenomena, in which SMEs are particularly effective, **speed up the innovation processes** and the diffusion of know-how and specialist competencies, both informal and formalized.

Consider in this regard the role played by the **extensive pool of sub-supply and supply firms**.

This vast pool of small and medium-sized enterprises **operates upstream to a significant number of buyer firms**.

In addition to **sector density** and **diversification**, there is a **third factor which allows SMEs to secure remarkable growth dynamics in the country**.

This factor is **the diversity of organizational forms, through which Italian SMEs are able to overcome (or attempt to remedy) some of their structural disadvantages**, while at the same time making a contribution to social and cultural growth.

We are concerned with forms of aggregation such as the following:

- **belonging to groups of businesses** (Italian and foreign) which may be either formalized or informal, in the industrial field and also in recent years with a sharp acceleration in state-of-the-art services and in the New Economy

- the **creation of co-operation networks** of SMEs for the purchasing of raw materials, semi-finished goods and power, as well as for the strengthening of R&D and for supplying the large distribution chains
- the **setting up of sub-supply networks by** buyer firms
- the **initial development of holonic-virtual businesses** (small and medium-sized firms created and managed using the new web technologies, and which operate together producing more complex technologies)
- above all, the fact that a **vast number of SMEs belong to clusters**, thus generating **considerable potential for growth** by means of electronic **networks** and through intelligent openness to **collaboration** with networks of businesses in other **world poles**.

The latter phenomenon, well-known throughout the world with reference to Silicon Valley, is **typical** of many Regions of Europe spanning north, east and west, and including the Paris area, Baden-Württemberg, Bavaria, and in Italy - our home country - Lombardy, Emilia and Tuscany. The phenomenon is, however, gradually expanding throughout Europe, where it is **undergoing continual transformation**.

The "chosen place" for the small and medium-sized enterprise system therefore lies in the **clusters**.

But what are these clusters? They are economic and social entities with a local territorial base. Their territory is somewhat confined and is characterized by having a community of people and a population of businesses with a specific identity.

The cluster history case study takes on a variety of forms depending on whether growth, static, moderately dynamic or rapid patterns appear, based **on the interaction of the following key factors:**

- a considerable number of firms in the value chain, from which a fairly sizeable core of "improver firms" emerges. The latter may to a greater or lesser extent be able to understand and fuel market needs for innovation, and integrate and diffuse the new codified knowledge throughout the local system.
- significant development and transfer of knowledge and tacit know-how (non-codified) as well as of incremental innovation to nearby firms
- the capacity to obtain productivity increases, not only through the grafting of capital and technologies but also through common rules structuring the division of labor around phases and specializations, by means of networks of firms in constant evolution
- the emergence of lead firms in the cluster, which through horizontal or vertical integration at the local and international level (the delocalization of production phases, and the acquisition of production and distribution units) contribute to the "meta-

organization" of the clusters and the "updating" of the competitive factors of the respective areas

- the work of numerous strong local institutions (collective actors) which function as creators of the "collective effectiveness" of the cluster. They do so by promoting policies for the creation and diffusion of knowledge (through the joint promotion of training centers, technical centers and laboratories etc.) and by promoting the development of the self-organization skills of firms in the cluster (e.g. export consortiums, purchasing and credit consortiums, and service centers).

In summary, we are witnessing the emergence of a cluster model which we can **define as a "virtual cluster"**, in which relational capabilities and entrepreneurial synergies no longer exert themselves only in the traditional physical territory dimension, but also increasingly **in the new virtual "spaces" of the web.**

That is to say we are witnessing the birth of systems of **vertically integrated firms** interconnected by telematics, and even of clusters created **directly abroad** (in Eastern Europe and in Latin America etc.) through the localization of dozens or even hundreds of firms.

In this case too, tradition can be linked with innovation. The **"local" of the cluster territory can and must meet the "global" of the web.** The **"glocal"** - rootedness in the local territory together with projection toward the global horizon of "virtual space" - is the **new global dimension** of SMEs.

Indeed, those who draw up the industrial policy of Europe are now perfectly aware of the fact that the dynamics of the SMEs are far more important than those of large companies for the unification of the socio-cultural fabric of Europe.

Whereas the key policy problem for large companies is controlling the persistence of competition and therefore the problems of an antitrust policy, for small and medium-sized businesses the central themes are different - and Europe is facing them with increasing realization. They span the theme of diffusion of research & development and technology, the defining of governance commensurate with indispensable financial and banking transformations, and the changed labor policy.

It is not possible to go into the expressed proposals here; proposals which have been developed in Europe and in these different fields.

I would, however, like to touch upon one particular sector here, as a finishing touch and in conclusion to this illustration.

The sector is entrepreneurship training for small and medium-sized enterprises. In this sector in Italy is an institution whose founding I made a personal contribution to. It went on to make an innovative contribution which was then taken up and expanded by the institutions of the European Community.

Indeed, I believe that it is above all with training that we may develop remedies to the inadequacies afflicting us in the area of relations between SMEs and social development.

Three projects such as those which follow are typical illustrations of this (please see dossier).

Final observations

We have seen that the diffusion of SMEs, the aggregation into clusters, the interconnection of those clusters, and entrepreneurship training all make up a formidable integration factor for economic development and socio-cultural development on a global scale.

However, we know that the world situation and the kinds of tension we have witnessed the birth of, and to which I referred at the beginning, do not depend on economic problems alone. They also depend, significantly, on socio-cultural problems, and it would be a huge mistake to ignore those problems.

In the world today it is not only the “economic divide” that adds fuel to political tension. A type of formative division based on different endowments of knowledge is looming and growing, this being attributable to the correct acceptance of the so-called “digital divide”.

That is why – and this will be my final consideration – when we raise the problem of how the presence of and co-operation between small and medium-sized enterprises in Asia and in Europe can contribute toward solving serious world problems, we must also ask ourselves whether small and medium-sized enterprises can help to reduce the sociological and therefore cultural inequalities that globalization is creating.

Well, here the answer is more than ever positive. Small and medium-sized enterprises - unlike large companies - do in fact have the capacity to be

linked with the territory, with the pluralism of intermediate societies starting with the family and moving on to local communities and then to political communities.

Whereas large companies brutally raise problems of conflicts of power and values in the various national societies, generally speaking small and medium-sized firms never take their internal problems across borders, doing so only through a system of connections and relations which are flexible and able to take into account the cultural differences characterizing workers from other cultural environments. They are capable - as has always been the case in international trade - of living with the prerequisite of great differences between the actors involved in the process.

In other words while large companies, multinationals and technostructures tend toward a homologation of values, rules and behavior, the concentration of power and therefore the creation of tension, small and medium-sized firms accept the differences and the articulation of values, rules and power.

And this is one aspect that the world - and within it the diplomatic culture - has always disregarded and one which, on the contrary, we must revive.

I am therefore convinced that faced with the challenges presented by the globalization process, by drawing on experience from their own socio-cultural backgrounds and their personal experiences, united Asian and European small and medium-sized enterprises can help solve the increasingly dramatic problems of cultural, social, economic and political tension which are afflicting the world due to the impact of globalization.

My hope is that something can be quickly set up in this direction, and that our work during this conference will prove to be a useful contribution.