

Innovation Powering Asia's Competitiveness

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In recent years, developing countries such as Vietnam, India and China have risen to global attention with their strong contribution to the software segment. With relatively low barriers of entry into the software industry, the balance of power in the global arena is quickly leveling out for those who choose to develop code rather than delve in heavy manufacturing.

The ability to constantly innovate is essential to Asia's sustained competitiveness in high technology fields such as software and IT. Innovation, in turn, comes about through a mixture of environmental factors influenced by government policies, as well as the quality and drive of the talents within each country. While no country has an exclusive claim to high-caliber talents, it is possible through strategy and policy to cultivate an environment that is conducive to producing good innovation.

A report on *Asia Innovation Policy Study* conducted by the INSEAD international business school and sponsored by the Business Software Alliance sheds some insight on such strategies and policies. One of the key findings is that there is clearly a role for the government in the digital economy, but it is not the traditional role of an economic regulator. Governments play the role of a facilitator, enabler and orchestrator of innovative activities, and should refrain from the obsolete practice of 'picking winners', be it in terms of specific players in the market, or types of technology or standards. After an initial period of facilitation, it is equally important for governments to know when to disengage and let the private sector and market forces take over.

The study also notes that the healthy development of domestic technology sectors requires that governments recognize and balance their dual roles as policy-makers and customers. As customers, governments should give consideration to interoperability and make choices based on specific functional needs. Governments should avoid adopting a one-size-fits-all approach to interoperability that could prevent the procurement of the best solution at the optimal price. As policy-makers, governments should support innovation by promoting choice and competitiveness, encouraging interoperable technologies and competing products to develop, and allowing market forces to choose the best option in individual cases.

In addition, the speed to market was identified in the INSEAD study as an essential factor to consider in innovation policy. At the fast-moving pace that technology develops and advances today, policy-makers cannot afford to prevaricate while the market moves on to new solutions. Industry players, both domestic and international, should not feel unnecessarily constrained in making the best use of their abilities and strengths to introduce new innovations in the market. It is important to have technology-neutral policies that will not lock-in preferences that can become a hindrance to industry progress and the ability of consumers to select better technology when they become available.

The study recognizes that the protection of intellectual property rights is vital for all organizations, and not just technology firms. Such rights help to strengthen the competitiveness of companies across all industries, as well as improve the negotiating platform and overall value propositions of emerging players trying to gain a foothold in the global marketplace. Similarly, attracting international players to innovate in local markets can help expand the host country's knowledge base – this is provided that the intellectual property practices are consistent with international expectations.

Policy-makers focusing on innovation should recognize the dynamics of market behaviors that are becoming more common place in Asia. Increasingly, there are regional IT initiatives growing from environments that encourage decentralized, market-driven innovation. Public policy needs to stimulate the demand for technology and encourage innovative activities on a broad scale. With technology innovation being a crucial competitive advantage in businesses and economies, the role of policy-makers in responding to the challenge of innovation is of critical importance.

The opening up of international markets for technology and design has favored latecomers, who predominantly come from Asia. In turn, Asian governments need to have a sound policy and legal regime in place that will be pivotal to creating a conducive environment that attracts foreign direct investments, and encourages and nurtures IT innovation that will enable a country to reap economic and social rewards in the long term.