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Study on Japanese Experience of Small and Medium Enterprises Promotion and Actual Case Examples

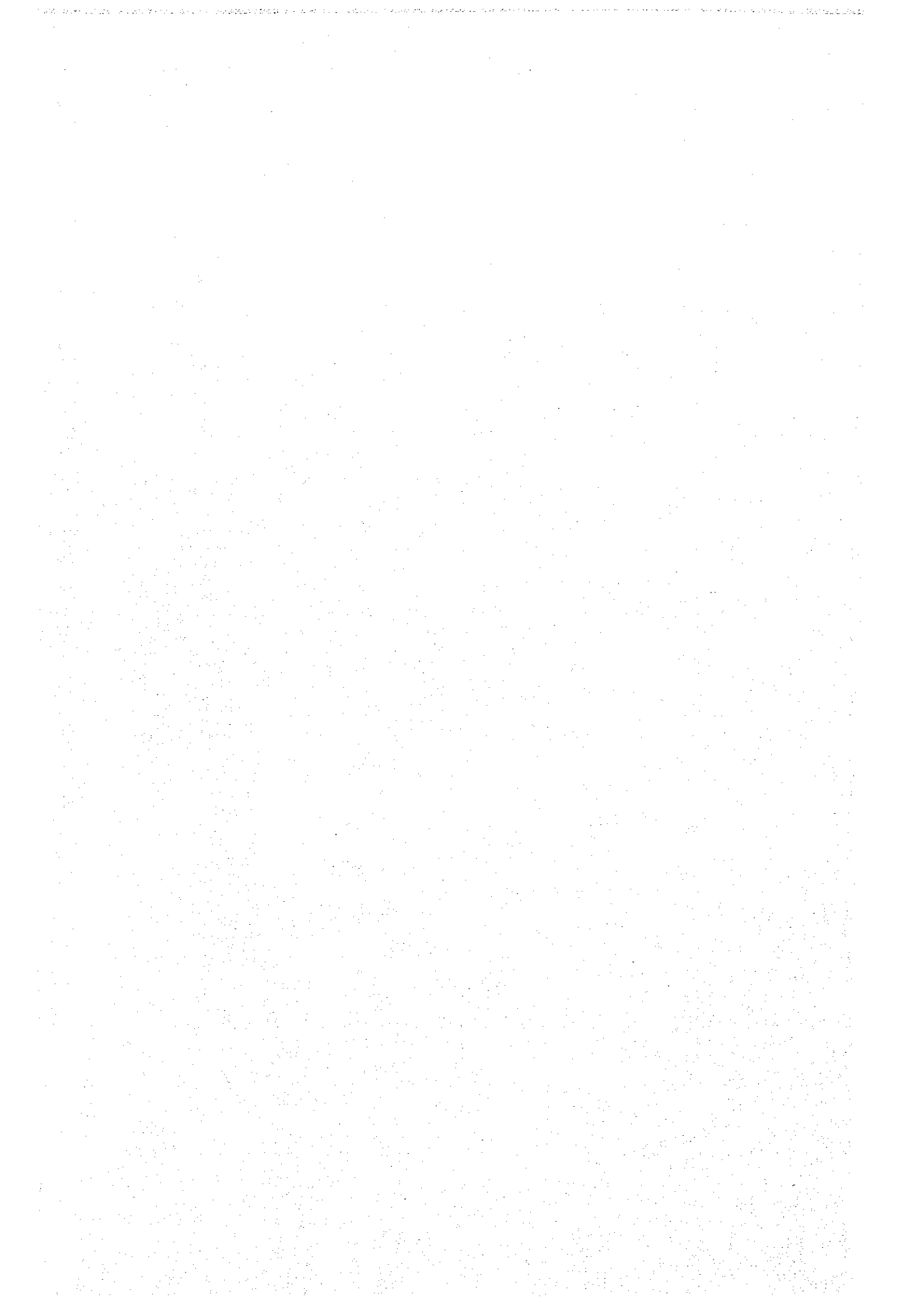
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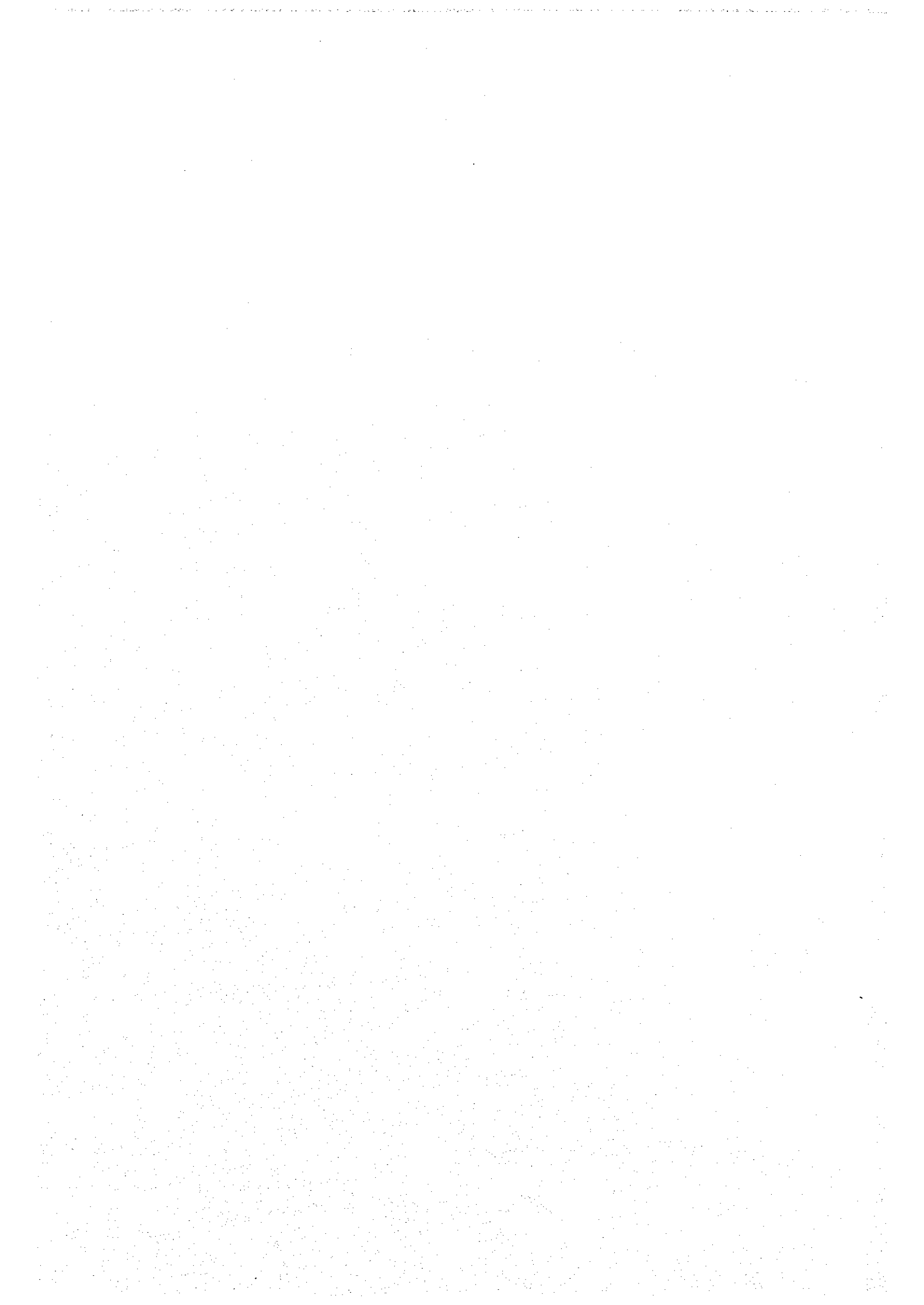
July, 2000

Mining and Industrial Development Study Department
Japan International Cooperation Agency

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Foreword

In recent years, thanks to the shift towards market economies in developing countries and to the rapid progress of globalization, it is increasingly recognized that encouragement of Small and Medium Enterprises (SMEs) is a driving force behind economic growth for the entire country. It also helps to strengthen the companies' infrastructures, and secure employment for citizens. Accordingly, there is an increasing need for cooperation related to the promotion of SMEs. Because Japan is regarded as one of the leading proponents in this area, some of the developing countries have high expectations of following Japan's lead in promoting SMEs. In addition, the Japan International Cooperation Agency undertook a variety of cooperative activities, based on the Japanese experience.

On the other hand, in order to understand the development of Japan's SMEs, it is essential to know about the various promotion measures undertaken by the administration, how these measures were applied and used by the SMEs, what types of effort and by what means the enterprises expended for their own development, and, the measures jointly undertaken by the government and its citizens. The developing countries are also making known their desire to have concrete examples provided, for reference purposes. This includes the method by which Japan's SMEs actually received and applied the measures, as well as their evolution for each stage of the cooperative process. In order to improve the efficiency of this type of cooperative activity in the future, Japan is strongly aware of the necessity to study concrete examples of how the SMEs coped in given situations, as well as the role played in these situations by the government. It is also necessary to investigate the possibility of applying these measures in developing countries.

Within this context, this investigation of the Promotion of Small and Medium Enterprises studied the types of measures taken by Japan's SMEs, as well as what types of support was contributed by administrations, and then summarized their findings. First in this report is a general overview of the Japanese Policies for Small and Medium Enterprises (Non-financial as well as Financial), followed by a presentation of some actual case examples of these policies. Next is a summary of the studies and interviews with enterprises in developing countries, regarding the developmental experiences of SMEs within each type of industry, as well as how the Small & Medium Enterprise Policies contributed to these enterprises' development. The investigation focused on the types of industries developing countries need most, such as (1) Machinery & Machine Parts, (2) Electricity & Electronics, (3) Textiles & Sewing, (4) Food Processing and (5) Venture Businesses.

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Abbreviation

<p>CGA: the Credit Guarantee Association</p> <p>JASMEC: Japan Small and Medium Enterprise Corporation</p> <p>JFS: the Japan Finance Corporation for Small Business</p> <p>JITCO: Japan International Trading Cooperation Organization</p> <p>MITI: Ministry of International Trade and Industry</p> <p>NLFC: National Life Finance Corporation</p> <p>PFC: the People's Finance Corporation</p> <p>SBIC: the Small and Medium Business Investment and Consultation Co., Ltd</p> <p>SBPPC: the Small Business Promotion Public Corporation111111</p> <p>SMEA: Small and Medium Enterprise Agency</p> <p>SMEs: Small and Medium Enterprises</p> <p>VEC: Venture Enterprise Center</p>

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Chapter I

Japanese Policy for Small & Medium Enterprises (SMEs) and Actual Case Examples (Non-financial)

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF POLITICAL SCIENCE
POLITICAL SCIENCE 301
LECTURE 1: INTRODUCTION TO POLITICAL SCIENCE

Chapter I

Japanese Policy for Small & Medium Enterprises (SMEs) and Actual Case Examples (Non-financial)

1. Japanese Policy for SMEs

It is well-known that SMEs (SMEs) play a very large role in the economy and social stability of a nation. Examples include providing employment and income opportunities, bearing the burden of technological innovations, working in close cooperation with regional societies, and increasing the rate of business start-ups.

For this reason, a rapidly increasing interest in SMEs is becoming evident in nations around the globe. Methods to foster and encourage SMEs rest with each country's policies. Each country has its own unique approach to SMEs Promotion Policies, based on its political ideologies and economic structure. In Japan, SMEs promotion started with strong anti-monopolistic policies designed to correct the dual structure which had appeared and to rectify SMEs disadvantages. Policies are now being implemented to improve the infrastructure of the enterprises as the next step in the developmental process.

Japan's SMEs Promotion Policies are made up of a far-reaching, extremely detailed policy system, which have produced extremely effective results. Below is an outline of the SMEs Promotion Policies and the unique characteristics of SMEs in Japan.

1.1 Details regarding government efforts in promoting SMEs

(1) During the Reconstruction Period following World War II (1945-54), a democratization of the economy was being called for, and, due to the after-effects of the war, the industrial economic conditions were still very tenuous. Thus, it was decided that it was first necessary to encourage the development of SMEs. In the beginning, SMEs Policies focussed on establishing laws, systems and organizations to cover finance, organizational upgrading, and consultation & guidance issues. When the Small and Medium Enterprise Agency (SMEA) was established in 1948, policies for Japanese SMEs began to be developed in earnest. The People's Finance Corporation (PFC) was established in 1949, and the Japan Finance Corporation for Small Business (JFS) was established later, in 1953.

Cooperatives and associations were established in an effort to correct economic and social disadvantages and to improve the social status of SMEs while undergoing systematic organization. To encourage modernization and rationalization of SMEs

management, the Small and Medium Enterprise Consultant Registration System was established and Guidance Centers for SMEs were set up.

In this way, the legal foundations and governmental infrastructure for the SMEs Policies were laid during the Reconstruction Period following World War II.

(2) In the High Growth Period (1955-72), the Japanese economy grew very rapidly. However, there were many SMEs which couldn't achieve modernization of their business management practices. This caused gaps to appear between SMEs and large enterprises, or in more concrete terms, a dual structure of productivity, wages, technologies and finance. Because of the intrinsic unfairness of the existing system, a paradigm shift came about, which led to the institution of the SME Basic Law in 1963. The objectives of this law were to correct disadvantages that result from economic and social restrictions, to assist the growth of and improve the social and economic positions of SMEs. Moreover, this law also prescribed the evolution of the infrastructure of SMEs, and the "Small & Medium Enterprise Modernization Promotion Law" was also enacted to promote the modernization of the various industrial classifications.

(3) During the Stable Growth Period (1973-84) following the First Oil Crisis, policies which to date had been devoted to improving productivity through modernization of equipment and facilities, expansion of operational scale, etc., slowly gave way to policies which stressed becoming more knowledge-centered. This shift was made in order to maximize the "soft" management resources, such as technology, human resources, data, and others.

Therefore, it became vital to develop methods to cope with human resources, and information and business issues. In response, the Institutes of Small Business Management and Technology were established to deal with human resources by giving administrators the opportunity to learn about management, technology, etc. The Small & Medium Enterprise Regional Information Centers were established to deal with information issues.

On the business side, the need for the SMEs to change their business focus was recognized, and policies regarding this change of business were promoted, regardless of the types of industry involved. Moreover, policies for change of business and regional promotion were advanced for regions which were having problems related to local infrastructures.

In this period, the Small and Medium Enterprise Promotion Corporation and the Small and Medium Enterprise Mutual Relief Corporation, two corporations related to the encouragement of SMEs, were united to form the Small Business Corporation, the predecessor of the present Japan Small and Medium Enterprise Corporation.

(4) After the Plaza Accord, it became necessary for Japanese industry to begin focussing on domestic demand, due to a decrease in exports caused by the strong yen.

It was also necessary for even more of the SMEs to change their organizational infrastructure. This was the beginning of the Transition Period (1985-present). Legislation was instituted to assist and coordinate both SMEs and regional industries which were affected by the recession brought on by the strong yen. This new legislation was aimed at revitalizing SMEs through the promotion of changes in the infrastructure of accumulated SMEs, encouraging SMEs to become more efficient, and encouraging entry into new business areas.

(5) The Business Foundation Support Policy began during the Transition Period. After the collapse of the bubble economy in 1990, policies were increasingly slanted towards slowing the declining rate of business start-ups and the increasing business failure rate, and to deal with an increasing unemployment rate. These policies supported the formation of new SMEs and the undertaking of research and development activities in an effort to assist the starting-up of new businesses. Moreover, policies were developed to promote establishing businesses and encouraging new businesses, by promoting competition, organizing cartels of SMEs associations and through deregulation.

(6) There was increasing recognition by local governments of the shift from the Stable Growth Period to a time when regional focus became the over-riding concern. The fostering of accumulated regional industry, or in other words, the creation of superior industries by supporting the establishment of SMEs, as well as providing support for the continued development of these industries gained force. This also created opportunities to actively implement state policies. This eventually led to the development of unified national policies, which led to the regions losing their individual autonomy. As a direct result of this, development of policies for unique SMEs was begun by local governments. These policies target the creation of strong SMEs.

1.2 The growth process of SMEs

(1) Definition of Small & Medium Enterprises

SMEs in Japan are defined based on data available for the average size of enterprises in a given industry. In 1999, the SMEs Basic Law was amended in the following manner.

Table 1-1 Definition of SMEs

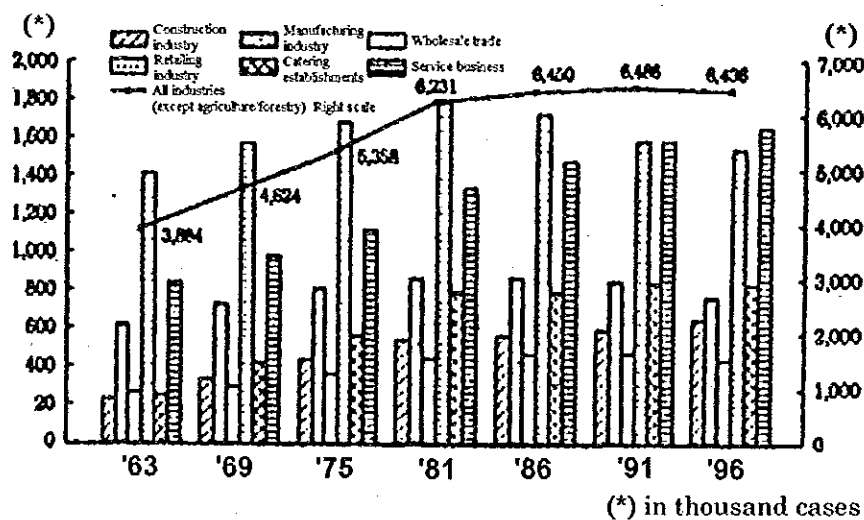
PREVIOUS SME BASIC LAW			NEW SME BASIC LAW		
Industry	Capital (in million yen)	Number of Staff	Industry	Capital (in million yen)	Number of Staff
Manufacturing, Other industries	100	300	Manufacturing, Other industries	300	300
Wholesale	30	100	Wholesale	100	100
Retail, Service	10	50	Retail	50	50
			Service	50	100

(2) Distinguishing characteristics of Japanese SMEs observable from the data

• The number of SMEs

An examination of the data by industry and staff-size classifications shows a consistent increase since 1963 in the number of SMEs business establishments for all industries (non-agriculture). However, in the period from 1991 to 1996, the number of businesses began to decrease. The manufacturing industry hit its peak in 1956, and has been gradually decreasing ever since then.

Figure 1-1 Changes in the Number of SMEs



Reference : Management and Coordination Agency "Statistic survey on business establishments and enterprises" re-arranged

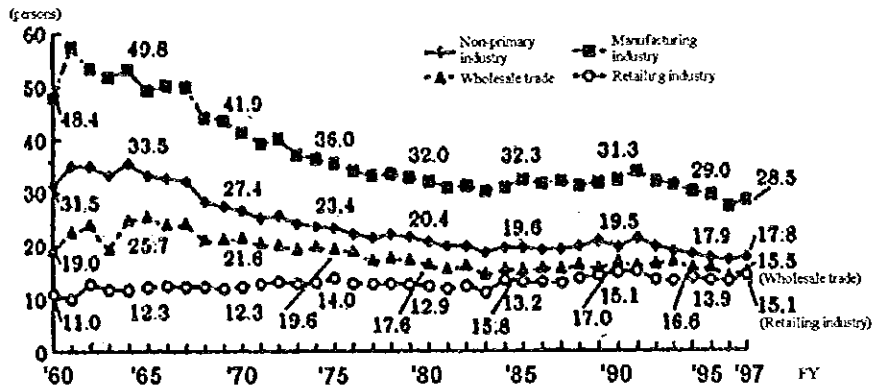
- (Note)
1. The survey was implemented as "Statistic survey on establishments" during 1963 to 1991.
 2. For the period before 1975, the statistics included business establishments whose payroll was not more than 299 (99 for wholesale trade, 49 for retailing, catering and service businesses); for the period after 1981, not more than 300 (100 for wholesale trade, 50 for retailing, catering and service businesses).

Source: White Paper on Small and Medium Enterprises in Japan, SMEs Agency (SMEA), 1999

• The average number of staff in all Japanese corporations, including large ones, is decreasing year to year. On average, each enterprise in the manufacturing industry has 30 employees.

99 percent of Japanese enterprises with 4 or more employees are SMEs. Additionally, of the 57 million people in the workforce in Japan, 78% work for SMEs. Using these numbers mathematically shows that the average number of employees per enterprise is 9.3.

Figure 1-2 Changes in the Average Number of Employees for a Corporation

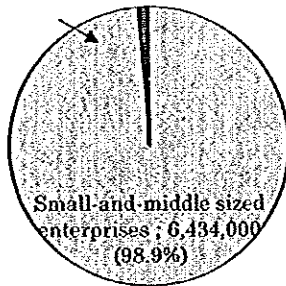


Reference : Ministry of International Trade and Industry "Industrial statistical graphs" rearranged

Source: White Paper on Small and Medium Enterprises in Japan, Small & Medium Enterprise Agency (SMEA), FY1999

Table 1-2 Comparison of the Number of SMEs (Number of Enterprises, Number of Employees)

① number of work establishments (non-primary industry)
 Number of establishments (non-primary industry); 69,000 (1.1%)

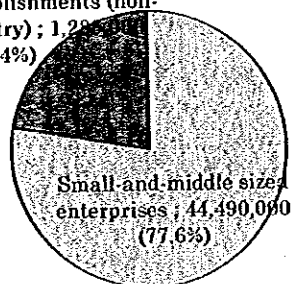


	1989	1991	1991	1996
Large enterprises	50,304 (0.8%)	57,445 (0.9%)	61,448 (0.9%)	69,367 (1.1%)
SMEs	6,571,942 (99.2%)	6,484,296 (99.1%)	6,470,532 (99.1%)	6,433,557 (98.9%)
Small-scaled enterprises	5,086,173 (76.8%)	4,901,641 (74.9%)	4,923,362 (75.4%)	4,757,730 (71.6%)
Total	6,662,246	6,541,741	6,531,980	6,502,924

Source: Establishments with up to 300 employees are classified here as SMEs (Up to 100 employees in the Wholesale sector, and up to 50 employees in the Retail and Service sectors)

Note; the figures in parentheses show percentages of total.
 Note; business establishments of a payroll of 300 or less are categorized as small and medium enterprises (for wholesalers, 100 or less, and for retailers and services, 50 or less).

② number of employees (non-primary industry)
 Number of establishments (non-primary industry); 1,220,000 (22.4%)



	1991	1991	1996
Large enterprises	11,392,533 (20.8%)	11,890,962 (22.0%)	12,854,194 (22.4%)
SMEs	43,399,294 (79.2%)	42,273,745 (78.0%)	41,492,576 (77.6%)
Small-scaled enterprises	15,565,550 (28.4%)	14,886,200 (27.5%)	15,171,866 (26.5%)
Total	54,791,827	54,163,807	57,346,770

Source: White Paper on Small and Medium Enterprises in Japan, Small & Medium Enterprise Agency (SMEA), FY1999

• In fiscal 1997, shipment of manufacturing products by SMEs with 4 or more employees accounted for 52 percent of all shipments, for a total amount of 164,025 billion yen. For sake of comparison, the Gross Domestic Product of Malaysia for the same year was 9,788 billion yen.

• **Productivity**

The value-added productivity of SMEs grew steadily until 1991, when it shifted to a decreasing trend. It is showing signs of recovery in recent years. However, value-added productivity is low when compared to that of large enterprises.

Table 1-3 Value-added Productivity in Manufacturing

(in thousand yen)

Payroll	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
4-9	4,502	4,675	4,916	5,320	5,674	6,118	6,036	5,677	5,713	5,755	5,972	6,120
10-19	5,484	5,619	5,933	6,371	6,877	7,302	7,164	6,885	6,811	7,024	7,199	7,431
20-99	6,412	6,623	7,087	7,499	8,022	8,450	8,408	8,178	8,207	8,585	8,897	9,082
100-299	8,562	9,102	9,800	10,357	10,976	11,475	11,444	11,310	11,515	12,089	12,365	12,746
300-999	11,692	12,549	13,840	14,746	15,115	15,554	15,371	15,148	15,788	16,612	17,054	17,377
More than 1,000	13,934	15,113	17,213	18,754	19,403	19,394	17,943	17,337	17,640	19,513	20,893	21,053
4-299	6,416	6,713	7,176	7,647	8,160	8,625	8,585	8,339	8,434	8,773	9,069	9,335
(10-299)	(6,863)	(7,164)	(7,694)	(8,115)	(8,704)	(9,152)	(9,105)	(8,903)	(3,981)	(9,397)	(9,681)	(9,955)
More than 300	12,805	13,778	15,440	16,661	17,207	17,425	16,614	16,204	16,675	17,973	18,825	19,060
Total	8,190	8,645	9,415	10,124	10,653	11,078	10,857	10,562	10,786	11,356	11,808	12,063

Source: White Paper on Small and Medium Enterprises in Japan, Small & Medium Enterprise Agency (SMEA), FY1999

(3) Steps towards Growth

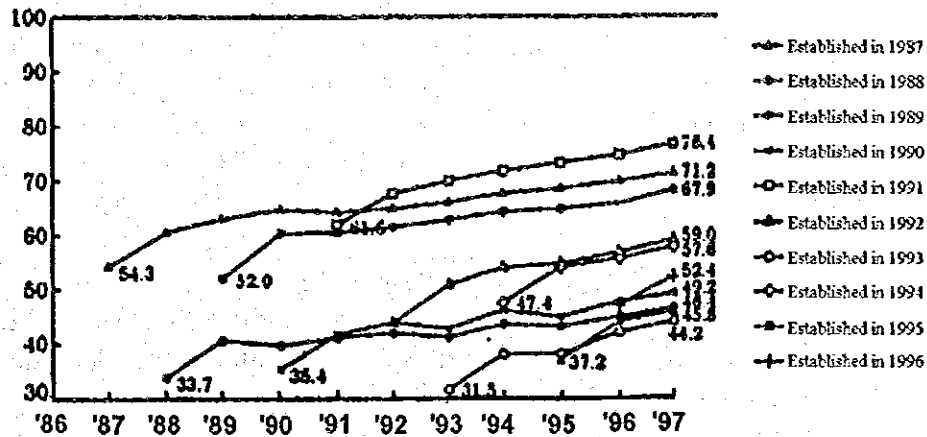
• Many of the SMEs in Japan began during the reconstruction period after World War II as private enterprises located mainly in urban areas. Their commendable evolution was originally supported by the recovery of domestic consumption following World War II, and was later bolstered by materials and products supplied for the Korean War, as well as many other positive business conditions at that time.

Moreover, though the production centers were already in place in local cities prior to World War II, following the war, they were rejuvenated, and new production centers were formed.

• Many of the SMEs were started up as owner-operated enterprises. Examples include SONY and MATSUSHITA, which rode the restoration tide following the war to become global enterprises. Even today, more than 90 percent of the SMEs in Japan are owner-operated or family-operated enterprises. There are 746 companies listed on the stock exchange which form the nucleus of Japanese industry today, and they are among these owner-operated enterprises started after World War II. It is also worthy of mention that 43 percent of major enterprises today are also owner-operated.

• And, by using the number of employees to examine the state of development, even recently started up SMEs are expanding smoothly (Figure 1-3).

Figure 1-3 Changes in the Average Number of Employees after Start-up



Source: White Paper on Small and Medium Enterprises in Japan, Small & Medium Enterprise Agency (SMEA), FY1999

Note: Enterprises established prior to 1987 are regarded as having 100 employees on average.

1.3 SME Business Environment

(1) Business Fields

• Generally speaking, the characteristics of the business fields that SMEs operate in are: a large initial investment isn't necessary, large-scale technology isn't required, has the potential to be divided into smaller parts, and has small markets.

• But in most cases the technology which the SMEs possess is very advanced. According to a questionnaire which asked SMEs to assess their company's special qualities, 61 percent of the responding enterprises felt they had "superior production and processing technology", 53 percent indicated "advanced technology" and 42 percent indicated "low price".

There are quite a few SMEs that have achieved a worldwide market share as a result of special technology, with most being active in niches in the industrial field. About 70 percent of the 650 prominent companies working in niche fields (defined by H. Shimada as "manufacturing enterprises whose products hold a 20 percent share of the domestic or international niche market", in *The Regional Structure of Industrial Creation*) are companies which have up to 300 employees.

(2) The Sub-Contracting Relationship

- There are two basic types of SMEs-independent SMEs which have technological capabilities, and dependent SMEs which are principally occupied with commissioned production and processing. The proprietor of an independent type of SMEs has the freedom to choose what to produce and what types of services to offer, as well as to set prices. The business success of the dependent type of SME is thanks to the "keiretsu" or a group relationship with a subcontracting company. There are many cases where independent SMEs have grown from small town factories to specialized manufacturers.

- While dependent SMEs undertake production and processing subcontract work for the major enterprises, they are able to acquire fundamental technological skills under the guidance of these major enterprises. They are also able to develop and improve their technology in order to increase their superiority in the marketplace.

According to a questionnaire which examined the working environment of SMEs, some of the benefits of being a production subcontractor include "A stable quantity of work", "Low risk of non-payment by customers", and "Independent business activities are unnecessary".

- SMEs are continuing to improve production and processing through production cooperation with neighboring enterprises which are gathering together within their region. In fact, most SMEs do business with enterprises which are located within the same area or neighboring regions. Over 70 percent of SMEs gave one of the following as reasons for the increasing aggregation of related industries and inter-dependence within a given region: "Parent company relationship", "Relationship with a subcontracting enterprise", "Relationship with someone in the same trade", or "Relationship with a different type of related enterprise" (according to research conducted by questionnaire to examine the business environment of SMEs). There are also many instances where colleagues in the region will help out a 'rival' company which is in trouble, by taking on work which the company cannot complete.

- Many regional-specific industries and companies that are involved in the same type of business arise in a given geographical area. For this reason, there are many instances of parts specialization within a given field.

(3) Business Conditions

- Most SMEs don't have enough skilled workers. Unlike major corporations which can hire skilled workers by selected recruitment, SMEs use On the Job Training (OJT) to give their employees the skills they need.

Major corporations manage to train only 28 percent of their skilled engineers and technicians in a five-year period, as compared to the 45 percent trained by SMEs in 5 years.

- The usual operating environment for most SMEs is known as a work-residence environment. This is because the managers, engineers and technicians live either adjacent to the factory or in the surrounding neighborhoods. In addition, the companies are usually located in areas with a mix of different businesses, which makes it easy for workers to change jobs without having to move.

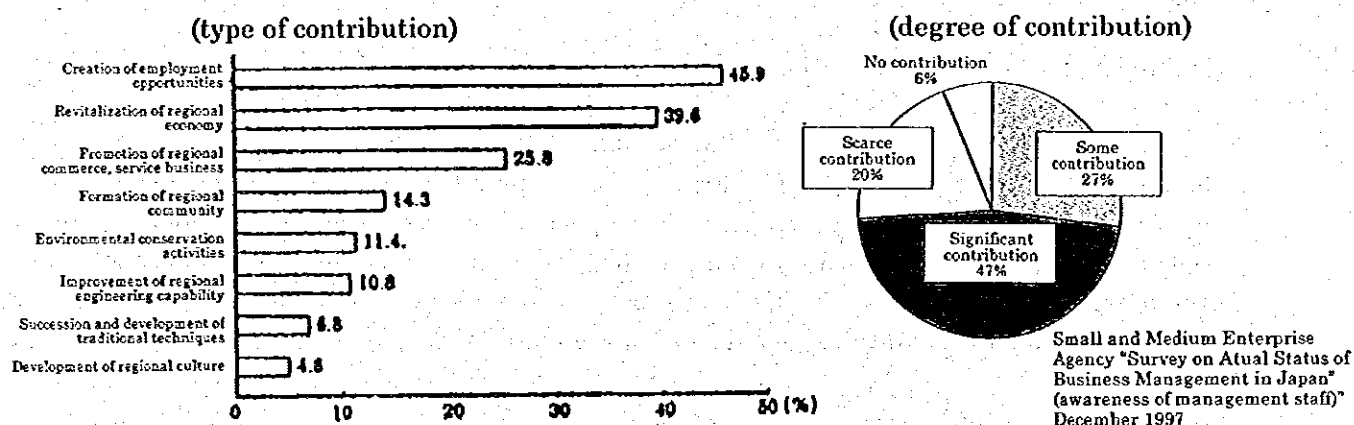
(4) Relationships with Regional Society

- SMEs are usually involved in labor-intensive industries, which means that they provide large contributions to local society by creating employment and income opportunities.

- The money earned by major corporations is usually re-absorbed into the company, and there is a tendency for these types of enterprises to reduce regional offices or even close them, depending on market conditions. On the other hand, the income of SMEs is returned to where it came from, meaning that they are actually helping to stimulate regional economies.

- SMEs act as a responsible member of society, undertaking activities which are closely tied to the local area, thereby helping to support the regional environment.

Figure 1-4 SMEs Contributions to Regional Economy



Source : Keywords of Small & Medium Enterprises 1998-99, Meeting for the Study of Small and Medium Enterprises, Economic Research Association 1998.

2. SMEs Policies and Actual Case Examples

Table 2-1 shows the organization of Japan's SME policy system, based on the Small & Medium Enterprise Agency's systematic classifications. Individual policies are established and/or rewritten to meet specific needs, and each of the policies is implemented in various ways by the national and regional governments, as well as by related organizations. This chapter presents a summary of some of the policies that

have achieved results in augmenting the success of enterprises, through a presentation of cases from the existing literature, as well as the results of interview investigations.

There is an abundance of references and data on successful actual cases, related to several thousand different enterprises*. The actual cases presented here are ones which clearly demonstrate the application of the SME Promotion Policies. Where the references and data were hard to understand clearly, the appropriate enterprises or related governmental organizations were contacted for confirmation, when necessary. The references which are used here have been taken from approximately 30 different reference sources outlining enterprises in the market, published by the national government and other related foundations (see the reference list provided at the end of this chapter).

(1) Support for New Businesses

Various support policies have been adopted to offer technical, management, and financial support for the establishment of new businesses. Measures implemented to support the establishment of new businesses and in the early period following the start-up of the business include the lending of office space, subsidies for new technology and new product R&D, liability guarantees, and tax deductions, among others.

Introductory Example

- SME Creative Activity Promotion Program (Table 2-2)

(2) Support for Market Penetration

One of the biggest problems of SMEs is how to garner a share of a given market. Government support is provided for this area (or in broader terms, for management support). Some effective core activities to support market penetration are: holding trade fairs and exhibitions to introduce the company to the markets, making promotion of the regional SMEs a priority for regional administration, and encouraging major corporations to make use of regional SMEs.

Introductory Example

- Program to Hold New Product Techno-Fairs and to Support Displays at Trade Fairs and Exhibitions (Table 2-3)

* The qualifications for inclusion in the Introductory Examples of Successful SMEs indicated in "The Introductory Examples of Successful SMEs Data" produced to date are not solely based on sales volume (including product shipment volume, etc.) nor the continual growth of pure profit. Rather, some of the qualifications include whether the given enterprise "Possesses unique technology or a specialty field of business or service", "Is progressing due to innovative technology or due to the fact they are progressing in the new business", "Has given due consideration on developing a business specific to needs, has developed market strategies and opened up markets", "Contributes to the regional accumulation of industry and to stimulating the region". Other relatively external considerations include "Is a driving force in the regional society and regional industrial world", "Is considered to be important in the region and plays a positive role in the region", "Makes sufficient use of regional resources, and makes use of advantages of the locale".

(3) Support for Technology Development

There are many policies which have been implemented to support increased technological capabilities. In order to achieve this technological shift, the national and regional governments support product and technology R&D, and undertake cooperative studies focused on new R&D. The regional administration offers support through their experimental research agencies and regional SMEs promotions. They also provide an extensive technological advisor system, which either bears the costs of consultants or provides temporary consultants, to SMEs that are involved technology R&D, improvement and supply.

Introductory Examples

- Creative Technological Research & Development Subsidy System (Table 2-4)
- New Products and New Technology Development Support Program (Table 2-5)

(4) Support for Management Resources Development

In order to solve the various managerial issues that face SMEs, the regional administrations undertake problem analysis and guidance activities. In addition, in order to improve management's abilities, a variety of training courses are offered by regional administrations, and at the Institute of the Japan Small Business Corporation, among others.

Introductory Example

- Managerial Strategies Formulation Support Program (Table 2-6)

(5) Support for Modernization and Business Upgrading

For those SMEs which are in one of the industries designated by the state as in need of modernization, the state or the industry draws up a modernization plan, and adopts measures to support modernization of facilities. In 1998, there were 47 such designated industries. In addition, business upgrading is one of the most important functions of Japan's SMEs Policies. The upgrading of SMEs business infrastructure is promoted through the introduction of various policies related to financing and guidance, among others. Special financing is offered to encourage the formation of SME groups and to encourage cooperation. A prerequisite to financing support is the requirement to undergo a business analysis and to receive guidance. The Modernization Plan by Industry, the City Plan, and others are used as the method to implement the rationalization of SMEs, improvement of productivity, and improvement of the SME locale and working environment.

Introductory Examples

- Structural Improvement & Business Upgrading Loan System (Table 2-7)
- SME Modernization Program (Table 2-8)

(6) Promotion of Regional SMEs

Stimulation of the regional accumulation of SMEs has been established as a target in order to promote the independent development of regional industries. In addition, the regional administration must develop a revitalization plan which indicates in which direction these regional industries should go, as well as how best to provide support. Following this, the administration should develop projects for the regional enterprises and associations based on this plan, and apply for support to agencies higher up in the hierarchy.

Introductory Examples

- Program to Establish Regional SME Associations, Regional Industry Associations, Industrial Groups and to Encourage the Establishment of Local Specialty Industries (Table 2-9)
- Industrial Promotion Plan by Region and Industry (Industrial Promotion Vision) (Table 2-10)
- Program for the Creation and Cultivation of Local Specialty Industry (Table 2-11)
- Program for Facility Construction and Transfer (Table 2-12)

Table 2-1 Policy System

POLICY TYPE	POLICY NAME	PURPOSE AND INTENTION OF POLICY	EXAMPLES
1. Strengthening of SMEs Business Foundation	SME Finance	To provide loans, credit guarantees and to ensure capital for SMEs which can't raise the funds themselves	
	Taxation	To reduce the tax burden of SMEs	
	Organizational Upgrading	To promote the development of SME-related agencies and to rectify SME competitive disadvantages through the establishment of unions, etc. and through management support	
	Optimization of Subcontracting Business	To rectify SME trade disadvantages.	
	Ensuring Contracts from the Government	To promote opportunities for SMEs to secure orders	
2. Support for SMEs Structural Reform	Support for New Businesses	To support the establishment and start-up of new SME businesses	SME Creative Activity Promotion Program (Table 2-2)
	Support for Market Penetration	To provide the appropriate market information and to rectify disadvantageous business opportunities.	Program to Hold New Product Techno-Fairs and to Support Displays at Trade Fairs and Exhibitions (Table 2-3)
	Support for Technology Development	To increase the independence of SMEs which have weak technological abilities and to help the SMEs respond to changes in the environment.	Creative Technological Research & Development Subsidy System (Table 2-4) New Products and New Technology Development Support Program (Table 2-5)
	Support for Management Resources Development	To increase management abilities to respond appropriately to economic and social changes.	Managerial Strategies Formulation Support Program (Table 2-6)
	Support for the Application of Information Technology	To respond to the increasing pace of information technology progress, and to support application of management innovations	
	Support for Modernization and Business Structure Upgrading	To upgrade business structures through the creation of groups and cooperation, and develop modernization plans in order to assist the development of each industry.	Structural Improvement & Business Upgrading Loan System (Table 2-7) SME Modernization Program (Table 2-8)
	Promotion of Regional SMEs	To expand the accumulation of industries with special regional characteristics, and to encourage creative development.	Program to Establish Regional SME Associations, Regional Industry Associations, Industrial Groups and to Encourage the Establishment of Local Specialty Industries (Table 2-9) Industrial Promotion Plan by Region and Industry (Industrial Promotion Vision) (Table 2-10) Program for the Creation and Cultivation of Local Specialty Industry (Table 2-11) Program for Facility Construction and Transfer (Table 2-12)
	Measures for City Center Revitalization	To provide support related to improving the business environment, etc., to SMEs located in city center areas in order to revitalize city centers, which are becoming depopulated and under-utilized	
	Promotion of Efficient Distribution System	To cope with SMEs problems of low distribution efficiency	
Securing a Labor Force	To support securing a labor force through improvement of the employment environment.		
3. Measures for Small-scale Enterprises		To cope with the various special problems of small-scale enterprises.	
4. Research and Public Relations		To undertake investigative analysis in order to adopt effective measures and undertake activities designed to expand the awareness and popularity of policies.	

Table 2-2 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS																
Policy Classification	PIONEER NEW BUSINESS FIELDS POLICY																	
Policy Name	SMEs Creative Activities Promotion Program (<i>Temporary Law on Measures for the Promotion of Creative Business Activities by SMEs</i>)																	
Implementing Body of Policy	SME Agency, Prefectural governments, Small Business Investment Co., Ltd.																	
Target of Policy Application	<ul style="list-style-type: none"> • SMEs attempting to develop new products and new services • SMEs or Individuals in the early business establishment period (SMEs recognized under the Prefectural Governor's R&D Business Plan) • R&D SMEs 																	
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> • After the collapse of the bubble economy, the fall in the business start-up rate, the high-rate of business closures and increasing unemployment became evident. • Given this situation, the <i>Temporary Law on Measures for the Promotion of Creative Business Activities by SMEs</i> was executed in April, 1995 in order to increase the rate of establishing businesses which met the needs of the age. • In Nov. 1995, the law was enacted, and 377 enterprises were officially recognized by the law. Interest in the law increased. 																	
Policy Outline	<ul style="list-style-type: none"> • To ensure sufficient capital to start up a new business, SMEs attempting to develop new products or new services are given liability guarantees by the Credit Guarantee Association established in each prefecture, corporate tax deductions and special plant & equipment depreciation, as well as subsidies for technology R&D and improvement. • Following approval of their research and development business plan, the policy also provides the same guarantees and tax deductions to SMEs or individuals in the early period following start-up of the business. • The R&D SMEs receive tax cuts for plant & equipment investment. In addition, to increase investments in enterprises by individual investors ("angels"), the Angel Tax System is applied. 																	
Present Situation	<ul style="list-style-type: none"> • 5,844 firms have been recognized under this Law by Dec. 1999. Unincorporated businesses account for 20% of the total. Looking at it from the different sectors, the manufacturing sector accounts for 70% and the service sector, which is centered around information processing services, account for 20%. 																	
Policy Effects / Actual Case Examples	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="padding: 2px;">Name: Company A</td> </tr> <tr> <td style="padding: 2px;">Founded: 1982</td> <td style="padding: 2px;">Staff: 13</td> </tr> <tr> <td colspan="2" style="padding: 2px;">Type of Industry: Electricity & Electronics (precision processing of electron optical parts and manufacturing of electron optical instruments)</td> </tr> <tr> <td colspan="2" style="padding: 2px;">The company developed the Ring Beam System (RBS), through its R&D business plan, which was recognized under the law. It has since obtained patents for RBS in Japan and the US, and is continuing to develop as an R&D enterprise.</td> </tr> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="padding: 2px;">Name: Company B</td> </tr> <tr> <td style="padding: 2px;">Founded: 1968</td> <td style="padding: 2px;">Staff: 19</td> </tr> <tr> <td colspan="2" style="padding: 2px;">Type of Industry: Electricity & Electronics (electric parts for automobiles, OA equipment and industrial equipment manufacturing)</td> </tr> <tr> <td colspan="2" style="padding: 2px;">The company had been working to develop an acceleration sensor which larger enterprises had yet to develop. However, it received recognition under the law to develop a servo-acceleration sensor. The company is developing applied machinery and tools through subsidies received for technological improvement.</td> </tr> </table>	Name: Company A		Founded: 1982	Staff: 13	Type of Industry: Electricity & Electronics (precision processing of electron optical parts and manufacturing of electron optical instruments)		The company developed the Ring Beam System (RBS), through its R&D business plan, which was recognized under the law. It has since obtained patents for RBS in Japan and the US, and is continuing to develop as an R&D enterprise.		Name: Company B		Founded: 1968	Staff: 19	Type of Industry: Electricity & Electronics (electric parts for automobiles, OA equipment and industrial equipment manufacturing)		The company had been working to develop an acceleration sensor which larger enterprises had yet to develop. However, it received recognition under the law to develop a servo-acceleration sensor. The company is developing applied machinery and tools through subsidies received for technological improvement.		
Name: Company A																		
Founded: 1982	Staff: 13																	
Type of Industry: Electricity & Electronics (precision processing of electron optical parts and manufacturing of electron optical instruments)																		
The company developed the Ring Beam System (RBS), through its R&D business plan, which was recognized under the law. It has since obtained patents for RBS in Japan and the US, and is continuing to develop as an R&D enterprise.																		
Name: Company B																		
Founded: 1968	Staff: 19																	
Type of Industry: Electricity & Electronics (electric parts for automobiles, OA equipment and industrial equipment manufacturing)																		
The company had been working to develop an acceleration sensor which larger enterprises had yet to develop. However, it received recognition under the law to develop a servo-acceleration sensor. The company is developing applied machinery and tools through subsidies received for technological improvement.																		

Table 2-3 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS						
Policy Classification	MARKET SECURING SUPPORT POLICY							
Policy Name	Program to Hold New Product Techno-Fairs and to Support Displays at Trade Fairs and Exhibitions							
Implementing Body of Policy	National government (and government-related organizations) Prefectural and city governments (and government-related organizations) The National Federation of Small Business Association (NFSBA) The Central Federation of Boards of Commerce and Industry (CFBCI)							
Target of Policy Application	Regional industrial collectives, SMEs and cross-sector business exchange groups							
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> • Due to various changes in the economic environment and in human values, SMEs continue to develop various new products. However, they need to ensure that these new products and technology meet the needs of the users. There are many cases of SMEs with the capacity to develop unique products but without established markets, which are very difficult to penetrate. Therefore, local governments hold exhibitions and urge SMEs to exhibit at general trade fairs and other exhibitions. • In order to increase the number of enterprises entering new business areas, the <i>Extraordinary Law on Promotion of New Business Areas through Fusion of SMEs in Different Industries</i> was enacted in 1988. SMEs were encouraged to work with SMEs in different industries to develop new merchandise collaboratively. Following this, in order to promote these new fields, it became necessary to create opportunities to introduce new products to the market. 							
Policy Outline	<ul style="list-style-type: none"> • The national government (SMEs Cross-Sector Business Exchange Foundation) holds techno-fairs for new merchandise twice a year to offer SMEs and the cross-sector groups the opportunity to introduce their products and technologies. • Prefectural governments, the national organizations of commerce and industry groups (the Central Federation of Boards of Commerce and Industry, the National Federation of Small Business Association) and government-related organizations, etc. invite buyers and hold products fairs and exhibitions in large cities and foreign countries. Usually the costs of exhibiting at these events are subsidized. Niigata Prefecture's "Market Development Support for New Venture Project" subsidizes half of the costs for high-tech and environment-related venture groups. • The prefectural and city governments, the national organizations of commerce and industry collectives and other related organizations establish Tourism and Local Product Centers, hold display-sales events, and offer business consultation services. 							
Present Situation	<ul style="list-style-type: none"> • There are very few SMEs from remote districts which have developed a market in the big cities through these exhibitions. However, there have been some SMEs who have developed trade contacts through these events, and which have grown as a result. • Recently, unique products with a "local flavor" have been gaining in popularity 							
Policy Effects / Actual Case Examples	<table border="1" data-bbox="411 1541 1262 1653"> <tr> <td colspan="2">Name: C Agricultural Cooperative Association</td> </tr> <tr> <td>Founded: 1948</td> <td>Staff: 113</td> </tr> <tr> <td colspan="2">Type of Industry: Food Processing (agricultural products and processing)</td> </tr> </table> <p>The K Agricultural Cooperative Association aims to achieve high value-added production to meet the increasing nutritional value of today's diet. It researched the reheatable/dehydrated products of other agricultural cooperative associations, and then began to manufacture freeze-dried vegetables. It exhibited in the "Hometown" Trade Fairs (in Tokyo and other cities) organized by the Promotion Center for Power Resource Region, and through this, expanded its market nationally.</p>	Name: C Agricultural Cooperative Association		Founded: 1948	Staff: 113	Type of Industry: Food Processing (agricultural products and processing)		
Name: C Agricultural Cooperative Association								
Founded: 1948	Staff: 113							
Type of Industry: Food Processing (agricultural products and processing)								

Table 2-4 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS												
Policy Classification	R&D PROMOTION POLICY													
Policy Name	Creative Research and Development Technology Subsidy System													
Implementing Body of Policy	The national government (each of the Regional Bureaus of International Trade and Industry) and prefectural governments.													
Target of Policy Application	<p><Organizations></p> <ul style="list-style-type: none"> • SMEs • SMEs business associations • Combined research association under the Regional Activation Creative Technological Development Subsidy Program) <p><Area of Endeavor></p> <ul style="list-style-type: none"> • Development of Industrial Technology and Information Processing Technology • Development of technology to encourage the growth of R&D SMEs, and development of technology to facilitate subcontract management • Development of Waste, recycling and environmental management technology 													
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> • This subsidy system was instituted in the 1998 fiscal year, as a revised version of the <i>Subsidy for Technical Improvement</i> established in 1967. It takes a long period of time for SMEs to collect sufficient capital for the undertaking of research and development. In addition, it is difficult for SMEs to receive financing from banking institutions due to because of uncertain results. The national government attempts to promote research and development by subsidizing a portion of needed management costs. 													
Policy Outline	<ul style="list-style-type: none"> • The subsidy system provides for half of the cost of new product and technology development or for the costs of undertaking experiments directly from the government to SMEs. • The subsidy system is implemented by the prefectural governments together with the national government, and is made up of the following two subsidies: the <i>Regional Activation Creative Technical Research and Development Cost Subsidy</i> and the <i>Technical Support System for Activate Measures of Local Accumulation of Industries</i>. The policy is designed to provide SMEs undertaking new product or new technology R&D with subsidies from the national government and support from the prefectural government. • SMEs under this policy are obliged to submit reports on the state of the R&D, as well as pay a portion of any profits to the government. They are also required to present their reports at conferences organized by their local Regional Bureau of International Trade and Industry and the prefectural government in order to help make the findings more public. 													
Present Situation	<ul style="list-style-type: none"> • The total budget for this subsidy system was 620 million yen in FY1998. 45 cases were selected to receive subsidies under this policy. In the past, the number of applications were 3 times the number of those chosen, but in recent years, this has climbed up to more than 5 times. This shows that more people are aware of the system and that many enterprises have high hopes for this policy. • Applications to the prefectural support system are also very positive. 													
Policy Effects / Actual Case Examples	<table border="1" data-bbox="448 1323 1302 1424"> <tr> <td colspan="2">Name: Company D</td> </tr> <tr> <td>Founded: 1959</td> <td>Staff: 140</td> </tr> <tr> <td colspan="2">Type of Industry: Electricity & Electronics (manufacturing of broadcasting facilities, medical instruments and automatic robots, etc.)</td> </tr> </table> <p>Though the company originally developed and produced equipment for broadcasting stations, following the oil crisis, it pursued a policy of diversification, and began to manufacture medical instruments, oxygen concentration apparatus, and various inspection devices, etc. It succeeded in developing automatic robots for factory lines through the Subsidies System. In addition to the assistance this system provided in business expansion and in securing earnings, the company has secured a stable market through the reduction of the risks inherent in technological development, and is now undertaking R&D in related fields to further expand their products.</p> <table border="1" data-bbox="448 1711 1302 1812"> <tr> <td colspan="2">Name: Company E</td> </tr> <tr> <td>Founded: 1969</td> <td>Staff: 50</td> </tr> <tr> <td colspan="2">Type of Industry: Electricity & Electronics (manufacturing communication equipment, measurement devices, etc.)</td> </tr> </table> <p>The company previously manufactured measurement devices and communication test equipment using laser beams. Following receipt of this subsidy, it succeeded in developing a device for measuring aging in humans. The focus of subsequent research and development were measurement devices. This provided the company with the opportunity to develop into an R&D enterprise.</p>	Name: Company D		Founded: 1959	Staff: 140	Type of Industry: Electricity & Electronics (manufacturing of broadcasting facilities, medical instruments and automatic robots, etc.)		Name: Company E		Founded: 1969	Staff: 50	Type of Industry: Electricity & Electronics (manufacturing communication equipment, measurement devices, etc.)		
Name: Company D														
Founded: 1959	Staff: 140													
Type of Industry: Electricity & Electronics (manufacturing of broadcasting facilities, medical instruments and automatic robots, etc.)														
Name: Company E														
Founded: 1969	Staff: 50													
Type of Industry: Electricity & Electronics (manufacturing communication equipment, measurement devices, etc.)														

Table 2-5 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS						
Policy Classification	R&D PROMOTION POLICY							
Policy Name	New Products and New Technology Development Support Program (This is an original policy established by prefectural governments, using the Industrial Research Institute of Niigata Prefecture's(IRINP)Cooperative Research Program here as an example)							
Implementing Body of Policy	Niigata prefectural government							
Target of Policy Application	Enterprises within the prefecture							
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> Niigata Prefecture's 21st Century Industrial Vision is the name of the fundamental policy. It is aimed at the improvement of the industrial environment for the creation and growth of self-supporting enterprises. The Science & Technology Principle of Niigata Prefecture indicates the necessity for improvement of industrial conditions so that autonomous research activity by enterprises may be advanced. The Cooperative Research Program of the Industrial Research Institute of Niigata Prefecture was established in 1995. 							
Policy Outline	<ul style="list-style-type: none"> The IRINP assists regional SMEs to develop products, improve technology and to obtain public certification of experiments. The IRINP provides equipment, human resources and information, and undertakes joint research with ambitious SMEs aiming at new product development and high value-added production. SMEs makes proposals to IRINP regarding cooperative research programs, instead of the former method of waiting for SMEs to apply to previously established research projects. The prefectural government selects proposals which will provide a driving force for the SME which will undertake the R&D. Then, with the cooperation of university researchers, the SMEs researchers and the laboratory researchers work as a team on the project. The prefectural government subsidizes half of the R&D costs. 							
Present Situation	<ul style="list-style-type: none"> During the past five years, 24 companies have applied and undertaken cooperative research projects 							
Policy Effects / Actual Case Examples	<table border="1" data-bbox="411 1227 1257 1339"> <tr> <td colspan="2">Name: Company F</td> </tr> <tr> <td>Founded: 1975</td> <td>Staff: 165</td> </tr> <tr> <td colspan="2">Type of Industry: Textiles & sewing (traditional textile industry)</td> </tr> </table> <p>This company, located in a traditional textile industry region, had grown to become one of the top enterprises of the traditional textile industry. However, the popularity of traditional Japanese kimonos began to decrease. The company undertook market research, and discovered that people were more interested in colorful kimonos, and so, created an integrated production keiretsu for Kyoh-Yuzen-style of kimonos. In comparison to the parts specialization system used by other traditional manufacturing areas, integrated production is more suited to quickly responding to consumers' interests. However, this requires wide range of technological capabilities. Company I proposed to IRINP to undertake R&D of the applicability of a design system using CAD-CAM to design traditional clothing. Collaborative research began, and the results were incorporated into an integrated production system. Because of its foray into the development and installation of high-technology, it is able to respond effectively, even to orders from large-scale retail shops.</p>	Name: Company F		Founded: 1975	Staff: 165	Type of Industry: Textiles & sewing (traditional textile industry)		
Name: Company F								
Founded: 1975	Staff: 165							
Type of Industry: Textiles & sewing (traditional textile industry)								

Table 2-6 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS						
Policy Classification	ENSURING MANAGEMENT RESOURCES POLICY							
Policy Name	Managerial Strategy Formulation Support Program ((This is an original policy established by prefectural governments, using the Creative Core Enterprise Business Fostering Program in Kumamoto Prefecture as an example)							
Implementing Body of Policy	Kumamoto prefectural government							
Target of Policy Application	Kumamoto SMEs							
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> The necessity of the support and strengthening of the R&D function, the strengthening of cooperative production, the securing and development of human resources and the strengthening of organized activities were indicated in the Kumamoto Prefecture Industrial Promotion Vision in 1993. In order to assist the further development of industry in the prefecture, it is necessary to upgrade the industrial infrastructure, increase value-added productivity and to increase expansion into new fields. 							
Policy Outline	<ul style="list-style-type: none"> The program in Kumamoto prefecture assists SMEs who are working to develop new products & new technology and improve their management. The prefectural government subsidizes a portion of the costs for developing management strategies and plans to expand their market. It has provided subsidies to three firms which were recognized as Creative core Enterprises each year during the period of 1995 - 98. Should the targeted SMEs plan to develop function and renew equipment based on the managerial strategy, an appropriate level of support is offered through established programs. 							
Present Situation	<ul style="list-style-type: none"> Many of the enterprises which have received support from this program have gone on to develop new business fields. 13 firms had been recognized and have received support since the establishment of the policy. Presently, the kinds of industries these firms are in include: precision parts manufacturing and precision processing, lumber, sewing, medical & social services equipment, metal processing & molding, etc. 							
Policy Effects / Actual Case Examples	<table border="1" data-bbox="438 1243 1284 1366"> <tr> <td colspan="2">Name: Company G</td> </tr> <tr> <td>Founded: 1971</td> <td>Staff: 80</td> </tr> <tr> <td colspan="2">Type of Industry: Textiles & Sewing (manufacturing of clothing for ladies)</td> </tr> </table> <p>This company originated as a retail fabric store, then moved into sewing processing, and finally became a made-to-order factory, when they began receiving orders from the clothing industry. They needed space for operations, so they built their own factory "Yume Kobo", dedicated to the creation of ladies clothing. There were 33 other with sewing companies in that district, but almost all have been closed or have gone bankrupt, due to the shift to overseas manufacturing by large enterprises. Today, there are only 9 companies remaining, including company L. A concomitant development in the industry was the growing reluctance of customers to buy clothes at small stores. Company L created links with these threatened small businesses and worked to develop a new system for made-to-order clothing. They made use of Kumamoto Prefecture's program and created a new business strategy. In addition to opening up a direct order-made connection between the consumers and local retail stores, they have also increased the size of their operations to support their technological innovations.</p>	Name: Company G		Founded: 1971	Staff: 80	Type of Industry: Textiles & Sewing (manufacturing of clothing for ladies)		
Name: Company G								
Founded: 1971	Staff: 80							
Type of Industry: Textiles & Sewing (manufacturing of clothing for ladies)								

Table 2-7 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS			
Policy Classification	MODERNIZATION AND BUSINESS UPGRADING POLICY				
Policy Name	Structural Improvement & Business Upgrading Loan System				
Implementing Body of Policy	Japan Small and Medium Enterprise Corporation, Prefectural governments				
Target of Policy Application	<ul style="list-style-type: none"> • SMEs • SME business associations (excluding the Fire Mutual Relief Cooperative Associations and Credit Cooperative Associations of the SME Business Associations indicated in article 3 of the <i>Law for Organization of SME Business Associations</i>). • Small scale establishments (less than 20 employees) - for the Commerce and Service sector, businesses with less than 5 employees) • The third sector Chambers of Commerce and Industry, Boards of Commerce and Industry 				
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> • It was necessary to promote the creation of associations and of cooperation (scale merit) in order to solve the functional problems associated with being too small. 				
Policy Outline	<ul style="list-style-type: none"> • The Business Upgrading System is presently composed of forty-six projects. • The objective of this system is to help the targeted SMEs or associations to improve their management and to respond effectively to the economic environment. This is achieved by promoting the creation of associations and providing financial support for the facilities financing. • Financing is also available to SMEs which participate in the setting-up of facilities for the undertaking of collaborative activities by the associations, and integrated projects, which help to increase the pace of cooperation. • The programs implemented by enterprises in the Third Sector and the various Chambers of Commerce and Industry include: establishing facilities, event halls, parking lots to enable regional SMEs to undertake R&D and development of products and to achieve market penetration. They also set up processing establishments and other support facilities to enable wholesaling. • 60-90% of program costs are loaned at low-interest rates. There are also non-interest loan depending on the purpose of the loan, and cooperative financing possibilities are available from the government financial institutions. • One of the special features of the modernization projects includes the following prerequisite to financing support. SMEs are required to submit to a business and project analysis and to receive guidance as a step in the creation of the business plan. This ensures the synthesis of the guidance and the financial support. 				
Present Situation	<ul style="list-style-type: none"> • By the end of 1997, more than 4 trillion yen in subsidies to 15,725 projects involving a total of 1,022,000 enterprises had been made as part of the loan system for the modernization financing support program. • The 46 projects underway at present include the cooperative sharing of manufacturing facilities by SMEs and associations, the aggregation of stores, and structural improvements. • The 3rd sector is working on projects to modernize retail districts. 				
Policy Effects / Actual Case Examples	<table border="1" data-bbox="395 1406 1241 1532"> <tr> <td data-bbox="395 1406 1241 1458">Name: Company Name : Small & Medium Sewing Enterprises affiliated with H Prefecture's Apparel Industrial Association</td> </tr> <tr> <td data-bbox="395 1458 1241 1487">Comprises: 170 companies</td> </tr> <tr> <td data-bbox="395 1487 1241 1532">Type of Industry: Textile & Sewing (manufacturing outer clothing)</td> </tr> </table> <p data-bbox="395 1532 1241 1762">Many of the enterprises affiliated with the J Prefecture Apparel Industrial Association are SMEs. The 50 companies which are involved in producing student uniforms hold 90% of the national market and production amounts to approximately 30 billion yen per year. The city and its surrounding area has traditionally been a uniform-manufacturing region. In the 1960's, the association founded a cooperative computer company, improving the growth of the affiliated enterprises. Similarly, small & medium sewing enterprises modernization financing, which was used to create a systematic cooperative distribution system, resulted in the establishment of the J Prefecture Clothing Delivery Center. The result of these cooperative projects was a stabilization of profits.</p>	Name: Company Name : Small & Medium Sewing Enterprises affiliated with H Prefecture's Apparel Industrial Association	Comprises: 170 companies	Type of Industry: Textile & Sewing (manufacturing outer clothing)	
Name: Company Name : Small & Medium Sewing Enterprises affiliated with H Prefecture's Apparel Industrial Association					
Comprises: 170 companies					
Type of Industry: Textile & Sewing (manufacturing outer clothing)					

Table 2-8 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS						
Policy Classification	MODERNIZATION AND BUSINESS UPGRADING POLICY							
Policy Name	SME Modernization Projects (A Structural Improvement System was introduced in 1969, targeted at increasing collaboration, cooperation, and mergers) (The system was revised in 1970, increasing the scope to include the promotion of such knowledge-centered programs as R&D for new products and new technology)							
Implementing Body of Policy	National government(MITI), Japan Small and Medium Enterprise Corporation, Japan Finance Corporation for Small Business, the People's Finance Corporation							
Target of Policy Application	<ul style="list-style-type: none"> • Designated industries: Industries which require manufacturing upgrading to be internationally competitive, or those which have a deep connection to citizens' lives. • Specific Industry categories: Those categories within the designated industries which need immediate strengthening of infrastructure · SMEs groups which intend to advance to a new business field. • SME groups which are in the process of promoting new business areas. 							
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> • The <i>SME Modernization Promotion Law</i> was passed in 1963, at the same time as the <i>SME Basic Law</i>. The designated industries at that time were those industries that were deeply involved with the modernization of manufacturing or with international competitiveness. • The <i>SME Basic Law</i> was aimed at lessening the manufacturing gap and other gaps between SMEs and large enterprises. The <i>SME Modernization Promotion Law</i> was aimed at upgrading the industrial infrastructure. 							
Policy Outline	<ul style="list-style-type: none"> • The national government draws up the modernization plan for the designated industries. • The industrial association of the designated industries then make structural improvement plans (requiring participation of at least half of the members), based on the independent plans of the industry. The goals of these plans are: facility modernization, increased added-value production (establishing model prices), and increases in quality and efficiency. • The mainstays of the restructuring programs are the "Development of New Technology", the "Suitable Production Program (which includes cooperative use of facilities, cooperative purchasing, etc.)", and "Rapid Capital Recovery (recovery of 1.5 times the costs of factory facilities and attendant equipment)", etc. • Expansion into new business fields at this stage is enhanced by the ingenuity and speediness inherent in SMEs, promoting the shift of industries which are suffering from lack of demand to new fields, which have achieve stable earnings and management. During the shift to new industries, should collaborative new product R&D be undertaken, approval of the new business promotion plan by the relevant minister leads to the adoption of individual subsidies measures. • The amount of special financing of the Japan Finance Corporation for Small Business, as established by this law, is based on an investigation of the results of the previous year's financing. 							
Present Situation	<ul style="list-style-type: none"> • Since the founding of the law, the focus of activities has shifted from equipment modernization to collective enterprising, and then from collective enterprising to knowledge-intensive work. In those days, this law was at the core of the SMEs Promotion Policies, and changed to keep pace with the changes occurring in the SMEs' environment. • Today, this law is no longer the nucleus of the SMEs Promotion Policies, due to the fact that policies are shifting toward "soft" issues such as Provision of Management Resource Policies, policies regarding the importance of locales, and Promotion of Entry into New Business Fields. New industries for the program are no longer being designated. 							
Policy Effects / Actual Case Examples	<table border="1" data-bbox="451 1525 1310 1626"> <tr> <td colspan="2">Name: I Industrial Association (Member-Operated Enterprise)</td> </tr> <tr> <td>Founded: 1962</td> <td>Made up of: 270 companies</td> </tr> <tr> <td colspan="2">Type of Industry: Electricity & Electronics (print circuit industrial association)</td> </tr> </table> <p>The association began receiving support under this program in 1967. In 1977, it was designated as a Specific Industry. During the 1978-82, 1984-90 and 1991-95 periods, it drew up structural improvement plans for the program. The objectives of the industrial association were the modernization of equipment, increase of value-added production (making model prices) and an increase in both quality and efficiency. Through these plans, the association has succeeded in creating a unified company, and has expanded its trade with large enterprises.</p>	Name: I Industrial Association (Member-Operated Enterprise)		Founded: 1962	Made up of: 270 companies	Type of Industry: Electricity & Electronics (print circuit industrial association)		
Name: I Industrial Association (Member-Operated Enterprise)								
Founded: 1962	Made up of: 270 companies							
Type of Industry: Electricity & Electronics (print circuit industrial association)								

Table 2-9 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS												
Policy Classification	PROMOTION OF REGIONAL SMES													
Policy Name	Program to Establish Regional SME Zones, Regional Industry Zones, Industrial Grouping Zones and to Invite Establishment in the Zones													
Implementing Body of Policy	Local governments, Regional Land Development Public Corporation, etc													
Target of Policy Application	SMEs, Business Cooperative Associations													
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> • Development of large-scale industrial zones and distribution zones for the purpose of inviting large enterprises to the region were the core activities of "industrial development", up to the peak of the period of economic growth. Many enterprises moved into the zones, and expanded their operational scale. At the same time, many of the regional SMEs were also expanding. The SMEs had strong expectations for the administration to ensure sufficient land, and so the SMEs zones were developed. • The Business Cooperative Association and the Federation of Cooperative Association was very active in securing business-zoned land for their own projects and for SMEs projects, well ahead of its need. However, due to the various financing difficulties the associations and companies faced in securing a site, there was a very strong desire to have the local governments and/or the Regional Land Development Public Corporation to ensure and develop the land, and then sell it to regional SMEs. 													
Policy Outline	<ul style="list-style-type: none"> • Industrial park development is implemented by local governments, the Regional Land Development Public Corporation, etc. • First, confirmation of SME's site needs is undertaken, following which the land is acquired. Then a Land Development Plan is drawn up which underlines the necessary conditions of the locale for the SME. The project is then undertaken with the cooperation of the regional industry association, and through the mediation of the local associations, the zone is developed according to the previously defined needs, following which the land is sold. • Lots in this developed zone is sometimes sold to enterprises which have been invited, but differing from zones developed specifically for invited companies, the lot size is very small. • Developed through the initiative of the regional leaders, the industrial zones system does not provide any real economic support, as the lots are sold rather than supplied. However, the local public bodies make working on these regions a priority, and they provide roads, sewage & water lines and special water lines for factories, as well as the other types of infrastructure. An independent developer would not be able to achieve this as speedily, so this is a benefit to the SMEs. • Based on the Industrial Introduction System, which is a system that encourages the moving to rural areas, the Agricultural Industrial Parks have been established. These zones have not been developed expressly for the SMEs. However, given that the scale of development of the zone is usually not big, SMEs tend to make the most use of them. The local regional enterprises receive favorable treatment in terms of tax rebates, low interest financing, etc. 													
Present Situation	<ul style="list-style-type: none"> • New development of SMEs zones (industrial parks, wholesale zones, etc.) has begun to decrease, due to a reduction in invited enterprises and a concomitant decline in the desire of SMEs to invest capital. 													
Policy Effects / Actual Case Examples	<table border="1" data-bbox="400 1420 1249 1518"> <tr> <td colspan="2">Name: Company J</td> </tr> <tr> <td>Founded: 1952</td> <td>Staff: 60</td> </tr> <tr> <td colspan="2">Type of Industry: Food Processing (manufacture of confectioneries, wholesaling)</td> </tr> </table> <p data-bbox="400 1518 1249 1644">The company expanded from manufacturing and selling confectioneries to wholesaling, and adopted a mass production system by taking advantage of the opportunity presented in supplying goods to a supermarket. At the same time, it established operations in the central wholesale zone the city established in order to promote SMEs' sales. Its business is stable.</p> <table border="1" data-bbox="400 1688 1249 1787"> <tr> <td colspan="2">Name: Company K</td> </tr> <tr> <td>Founded: 1986</td> <td>Staff: 55</td> </tr> <tr> <td colspan="2">Type of Industry: Machinery & Parts (development and manufacture of Internal & External Vertical CNC Grinder)</td> </tr> </table> <p data-bbox="400 1787 1249 1912">The company was located in a industrial park developed by the city's Land Development Public Company. Following development of the Internal & External Vertical CNC Grinder, it began to receive more orders, invigorating the business. The company had a factory located in a different area, but there was not enough space to expand. Therefore, the company obtained a site for a new factory in an industrial park developed by the city.</p>	Name: Company J		Founded: 1952	Staff: 60	Type of Industry: Food Processing (manufacture of confectioneries, wholesaling)		Name: Company K		Founded: 1986	Staff: 55	Type of Industry: Machinery & Parts (development and manufacture of Internal & External Vertical CNC Grinder)		
Name: Company J														
Founded: 1952	Staff: 60													
Type of Industry: Food Processing (manufacture of confectioneries, wholesaling)														
Name: Company K														
Founded: 1986	Staff: 55													
Type of Industry: Machinery & Parts (development and manufacture of Internal & External Vertical CNC Grinder)														

Table 2-10 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS						
Policy Classification	PROMOTION OF REGIONAL SMEs							
Policy Name	Industrial Promotion Plan by Region and Industry (Industrial Promotion Vision)							
Implementing Body of Policy	Each Bureau of the Ministry of International Trade and Industry, prefectural governments, city governments							
Target of Policy Application	Prefectural governments, city governments, industrial collectives, regional SMEs							
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> At the height of the economic growth, there was a deep awareness of the nation-wide growth of industry. Concrete industrial promotion plans were drawn up by region and industry, with the goal of promoting nation-wide growth of industry by revitalizing industries which fit in with the character of their regions and their industries. 							
Policy Outline	<ul style="list-style-type: none"> First, the industrial promotion plan clarifies the direction of the regional industries while keeping in mind the conditions of the regional industries and the changes in society and the economy. Ideas for promotion are drafted, and concrete plans are developed for those measures with a high level of public interest. The future direction (vision), ideas and plans are presented and then made more tangible, by using opinions collected from the local industrial groups and owners of leading enterprises. Local industries and regional SMEs then implement business activities according to this promotional vision. The autonomous group, which drew up the promotion plan also ensures the budget for the implementation of the plan, and they undertake the implementation of it. This policy is aimed at the introduction of enterprises (by invitation), the promotion of existing enterprises, new business start-ups and promotion of venture businesses; however, the exclusion of enterprise introduction happens frequently. Local SMEs promotion is the main focus. The policies also applies to objective measures such as direct support of SMEs and industrial infrastructure, promotion-related facilities and the setting up of organizations. 							
Present Situation	<ul style="list-style-type: none"> This plan has frequently been utilized to discover new directions for industrial promotion in the transitional period and during the sudden changes to regional economies. In recent years, the municipal administrations have been involved with drawing up vision plans for regional industrial promotion. 							
Policy Effects / Actual Case Examples	<table border="1" data-bbox="459 1115 1299 1218"> <tr> <td colspan="2">Name: Company L Fishery Processing Association</td> </tr> <tr> <td>Founded: 1952</td> <td>Staff: 24</td> </tr> <tr> <td colspan="2">Type of Industry: Food processing (fishery and processing)</td> </tr> </table> <p>Due to the very poor catches which are the norm in the fishing industry these days, this company wanted to move into a high value-added field. They became involved in new technology and new product R&D related to the fishing processing industry. They were successful in developing new products thanks to the support of their town's Industrial Promotion Plan (Power Resources Region Industrial Growth Support Program Vision), and have since become a specialty product producer.</p>	Name: Company L Fishery Processing Association		Founded: 1952	Staff: 24	Type of Industry: Food processing (fishery and processing)		
Name: Company L Fishery Processing Association								
Founded: 1952	Staff: 24							
Type of Industry: Food processing (fishery and processing)								
	<table border="1" data-bbox="459 1406 1299 1509"> <tr> <td colspan="2">Name: Company M</td> </tr> <tr> <td>Founded: 1993</td> <td>Staff: 18</td> </tr> <tr> <td colspan="2">Type of Industry: Venture (information processing, development of software and data base construction)</td> </tr> </table> <p>This firm successfully built its information service and hired people from the local workforce, thanks to the support of The Regional Promotion Vision Plan, which specifies the start up of enterprises in the information service industry. This third-sector company was established in 1993 by 1 city and 5 towns in the region, together with the area's electric power company, and it's growing due to it's stable market of the district municipalities.</p>	Name: Company M		Founded: 1993	Staff: 18	Type of Industry: Venture (information processing, development of software and data base construction)		
Name: Company M								
Founded: 1993	Staff: 18							
Type of Industry: Venture (information processing, development of software and data base construction)								

Table 2-11 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS			
Policy Classification	PROMOTION OF REGIONAL SMEs				
Policy Name	Program for the Creation and Cultivation of Local Specialty Industry				
Implementing Body of Policy	National government, prefectural governments, city governments, SMEs associations, business cooperative associations				
Target of Policy Application	Prefecture government (and related organizations), city governments (and related organizations), industrial associations within the region, SMEs				
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> The high Japanese yen exchange rate after the oil crisis caused exports to fall, which had adverse effects, even on the regional industries which had been growing for a long time. This policy was aimed at erasing these influences, and to revitalize local industry. Specifically, it was aimed at recovering vigorous activity in regional industries, which have very strong links to the region and which played a vital role in providing employment. 	Regional industrial network guidance programs were also undertaken to meet this goal			
Policy Outline	<ul style="list-style-type: none"> The national government offers support to local governments and regional industrial association in creating a vision for the local industry. This vision is divided by region and industry, and should identify new regional industrial opportunities which make use of the economic resources in the area. The vision should also include strategies for new product development as well as market penetration and distribution methods. The vision, divided by region and industry, lays out in concrete terms the characteristics of the region, industry, trends, and other special features of the regional industry. In addition, it discusses potential new configurations for production and trade. It also identifies the future direction for nurturing and development. The five items which make up the vision are 1) objectives and measures, 2) noted local industry (by region and industry), 3) the environment surrounding the local industry, 4) present condition and problems and 5) the course of action by which local industry should advance. Programs for the structural improvement of the local industry infrastructure is also a part of this vision.. 				
Present Situation	<ul style="list-style-type: none"> The drawing up of the structural improvement program was completed in 1998, and the Program for the Creation and Cultivation of Local Specialty Industry was completed in 1999. Today, actual projects are being implemented in accordance with the vision. 				
Policy Effects / Actual Case Examples	<table border="1" data-bbox="403 1205 1257 1328"> <tr> <td>Name: SME Sewing Enterprises associated with Prefecture's Apparel Industrial Association</td> </tr> <tr> <td>Staff: 170</td> </tr> <tr> <td>Type of Industry: Textiles & Sewing (outerwear manufacturing -- excludes underwear)</td> </tr> </table> <p>These companies had a large share of the national low-quantity high-variety jeans market and the school uniform market, but they had to fight against the problems presented by this low-quantity high-variety characteristic, as well as stiff price competition from overseas manufacturing markets. In 1995, they created an apparel industry vision, using a subsidy from MITI's restructuring program. This vision identified the future direction which the member companies must take. In order to revitalize the outerwear industry, they took advantage of some of MITI's other programs, such as the Fashion Town Program, Casual Day Plan, and the New School Uniform Development Plan. As a result, they have uncovered the market's outerwear needs, and the regional industry as a whole is beginning to recover. The vision outlined the future direction in the following areas: the development of designing abilities, the building of the fashion center, and new product development. MITI's Regional Promotion Revitalization Program also supported the continuing expansion of the markets, and marketing programs aimed at schools and parents to promote new school uniforms. They applied to this program as a supplement to their efforts to discover the markets needs.</p>	Name: SME Sewing Enterprises associated with Prefecture's Apparel Industrial Association	Staff: 170	Type of Industry: Textiles & Sewing (outerwear manufacturing -- excludes underwear)	
Name: SME Sewing Enterprises associated with Prefecture's Apparel Industrial Association					
Staff: 170					
Type of Industry: Textiles & Sewing (outerwear manufacturing -- excludes underwear)					

Table 2-12 OUTLINE OF PROMOTION POLICIES FOR SMEs

ITEM	CONTENT	REMARKS						
Policy Classification	PROMOTION OF REGIONAL SMEs							
Policy Name	Program for Facility Construction and Transfer by Japan Environment Corporation (JEC) (Resident-Interactive Industrial Park "KUMAMOTO Garden Factory Park" development project)							
Implementing Body of Policy	Kumamoto City, JEC, FOODPAL KUMAMOTO Cooperative Association							
Target of Policy Application	FOODPAL KUMAMOTO Cooperative Association (cooperative establishment), Regional SMEs (food processing)							
Overview of the Situation at the Start of the Policy	<ul style="list-style-type: none"> In 1988 KUMAMOTO SME Promotion Vision was formulated, and regional industries requested the establishment of an SME zone. The policy's aim is to improve the environments around factories in the city, as well as to develop plans to rescue domestic SMEs which will be unable to undertake overseas mass production in the 21 century. 21 companies of the 25 which indicated interest in this project have established the FOODPAL KUMAMOTO Cooperative Association. 							
Policy Outline	<ul style="list-style-type: none"> The five developmental concepts of the KUMAMOTO GARDEN FACTORY PARK (FOODPAL KUMAMOTO at the time of completion) are as follows: 1) the cultivation of ambitious, aware and responsible enterprises to lead regional societies, 2) development with an eye to city development, 3) industrial parks with the potential for interactions with residents, 4) the improvement of the working environment, 5) connections to regional agriculture, animal husbandry and fishery enterprises. FOODPAL KUMAMOTO Cooperative Association has undertaken cooperative programs based on the above concepts, such as providing rooms for events and cooking classes, social services programs such as day-care centers, new product development & presentation, and cooperative purchasing of materials and ingredients. One of the purposes of this open industrial park is to provide the opportunity to interact with the local citizens. The special features of the Resident-Interactive concept include: welcoming visitors, direct sales, factory field trips, and dining in the attached restaurant, etc. This is a focal point for the SMEs which make up local industry, and is providing food for thought in terms of upgrading the SMEs business. 							
Present Situation	<ul style="list-style-type: none"> There is interest in this project from both the industry and from local residents. FOODPAL KUMAMOTO is the most popular facility in Kumamoto City. FOODPAL KUMAMOTO has become very well-known, as illustrated by requests from department stores that they participate in Kumamoto regional industry sales events at the stores. 							
Policy Effects / Actual Case Examples	<table border="1" style="width: 100%;"> <tr> <td colspan="2">Name: Company O</td> </tr> <tr> <td>Founded: 1997</td> <td>Staff: 50</td> </tr> <tr> <td colspan="2">Type of Industry: Food processing (Manufacturing & sales of Western-style confectioneries)</td> </tr> </table> <p>This company was established in FOODPAL KUMAMOTO as a subsidiary company. The parent company was running out of production space, and was looking to expand its production of real Western confectioneries. In addition, the development concepts of FOODPAL KUMAMOTO met its own developmental direction. As an "Open factory", the subsidiary's factory is open for tours. Representatives from the large-scale department stores, supermarkets, and candymakers visit the factory, and new business develops from this. Sales have been on the rise since its establishment in FOODPAL KUMAMOTO.</p>	Name: Company O		Founded: 1997	Staff: 50	Type of Industry: Food processing (Manufacturing & sales of Western-style confectioneries)		The parent company made use of Loans for Structural Improvement and Business Upgrading.
	Name: Company O							
Founded: 1997	Staff: 50							
Type of Industry: Food processing (Manufacturing & sales of Western-style confectioneries)								
<table border="1" style="width: 100%;"> <tr> <td colspan="2">Name: Company P</td> </tr> <tr> <td>Founded: 1970</td> <td>Staff: 200</td> </tr> <tr> <td colspan="2">Type of Industry: Food Processing (manufacturing & sales of delicatessen, European-style confectioneries and high quality foods)</td> </tr> </table> <p>This company began by manufacturing and sales of health food delicatessens, and then expanded into making confectioneries, and offering high-quality pastries with tea. In 1997, they moved their head office and main factory to FOODPAL KUMAMOTO. In response to customer suggestions, they set up factory tours, a gift shop, and a restaurant. Since FOODPAL KUMAMOTO has become well-known as a place for socializing, the company has been able to attract university graduates as employees, which in turn has brought down the average age of the employees.</p>	Name: Company P		Founded: 1970	Staff: 200	Type of Industry: Food Processing (manufacturing & sales of delicatessen, European-style confectioneries and high quality foods)		The company made use of the Loans for Structural Improvement and Business Upgrading, and paid it back before the promised time.	
Name: Company P								
Founded: 1970	Staff: 200							
Type of Industry: Food Processing (manufacturing & sales of delicatessen, European-style confectioneries and high quality foods)								