

CHAPTER 10

PILOT PROJECT

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10.1 Object, Selection and Planning of the Pilot Project

10.1.1 Object of Pilot Project

Pilot project is to select themes from the important suggestions for promotion of the small and medium enterprises in Shenyang City to perform experimental trials as pilots. To obtain practical effects of the investigation not only remaining in planning and suggestion of the outputs, we paid special attention to following points.

- (1) At respective stages of project selection, planning and evaluation, we made analysis by PCM and developed plans with the China side at the center to grasp their needs.
- (2) We tried to confirm the effectiveness of small and medium enterprise promotion policy and measures of the investigation team through the pilot project.
- (3) We attached greater importance to technical transfer, personnel development and organizational development so that China will be able to maintain and improve Information network of small and medium enterprises after the completion of this project.

10.1.2 Selection of Pilot Project

(1) Selecting Process

When selecting project plan, the study team surveyed present and future plans on the subjects of promoting small and medium enterprises kept by Shenyang City and measures on the government side, and needs of the enterprises. Then, summing up the results of the survey, we analyzed the problems using PCM (Project Cycled Management) method. From the investigation results, “Information network of small and medium enterprises” is selected for a pilot project.

When selecting Information network of small and medium enterprises, both of Japan and China sides investigated a system, which is being partly operating by Economic & Trade Commission, Shenyang chamber of commerce, and total conception up to 2003, which was suggested by Economic and Trade Commission of Shenyang. Both partners

performed PDM (Project Design Matrix, taking part in the planning) and planned after taking these in consideration.

The investigation process and contents described above are discussed and agreed in the conference commission. Fig. 10-1-1 shows this process.

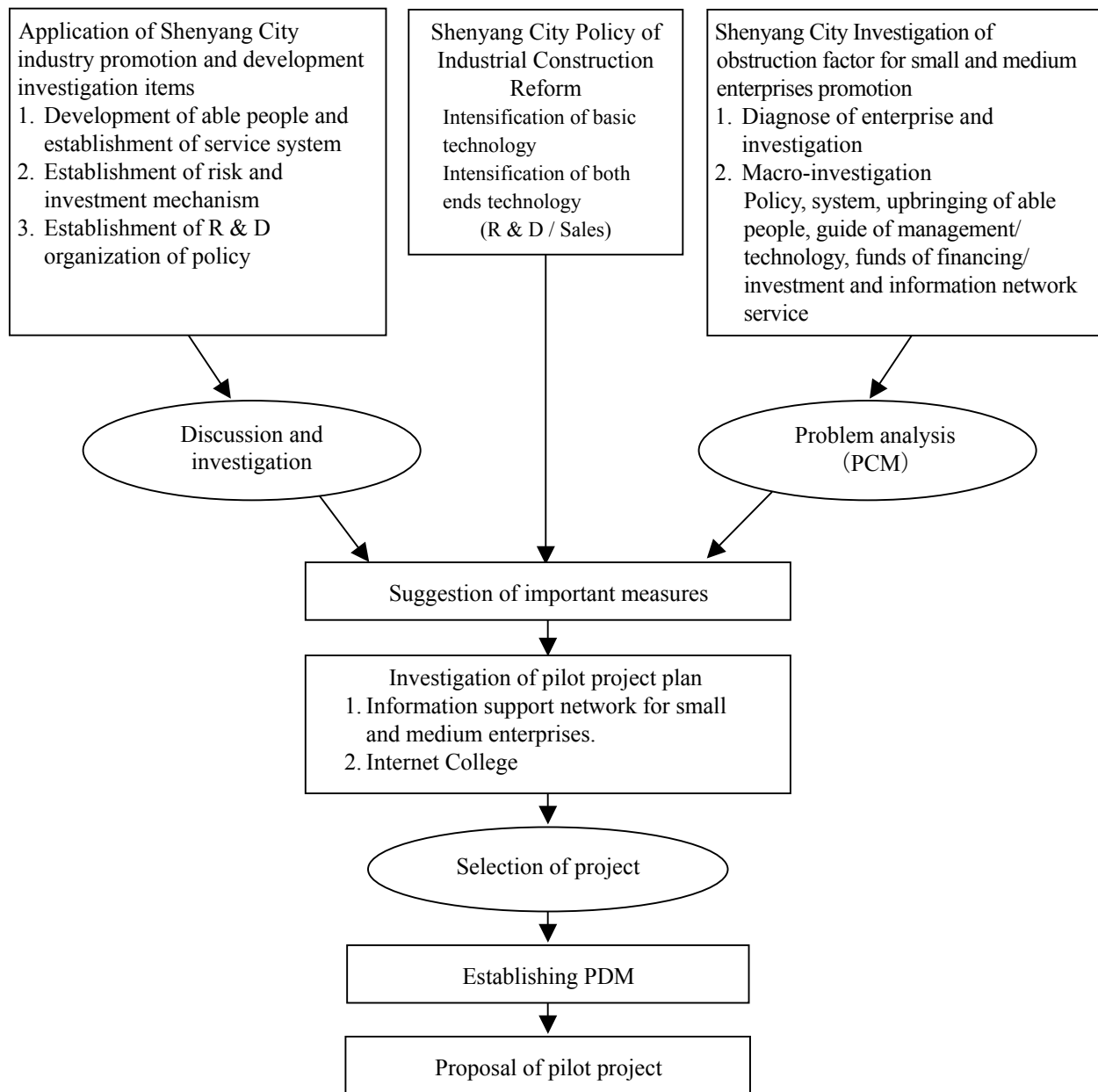


Fig. 10-1-1 Selecting Process of Pilot Project

1) Confirmation of the Application Contents of Shenyang City Industry Promotion and Development Investigation Items

“Application of Shenyang City industry promotion and development investigation items” dated 5 May 2000 that was submitted from Municipal Government in Shenyang City to JICA stated the following three items of the demand. Before selecting pilot project, the opinion of Economic and Trade Commission on the three items was confirmed.

a) Human Resources Development and establishment of a Service Center

Since the development of able people was the highest subject of Shenyang City promoting small and medium enterprises, the investigating commission suggested as one plan of the pilot project. That is, it is a theme of “Internet College” using information network, and the importance is taken attention since there is no such a consideration on China side. This project necessitates establishment of teaching materials. Then, this project cannot complete in the planned short period, and is made to a future subject. However, an opinion on China side is that this pilot project sufficiently corresponds to the demand regarded as important by Shenyang City “Development of able people and establishment of service system”, since the information network of small and medium enterprises includes the development of able people.

b) Establishment of risk and investment mechanism

The opinion on China side is that this theme is important in future, but this is a subject of long period and not expected the effect in a short period such as a pilot project. Then, it was concluded that this theme was not considered as a pilot project. Further, both partners judged that the information network of small and medium enterprises will be linked with a network of financing information and effectively used for an investment support in future, if a pilot project will be applied to the information network of small and medium enterprises.

c) Establishment of R & D organization of policy

Economic and Trade Commission requested this theme expecting a suggestion of the investigation commission, since concrete and effective measures of promoting small and medium enterprises are not prepared in Shenyang City. Therefore, the opinion on China side is shown that the establishment of such an R & D organization is not a main point of the request in particular.

2) Needs of the Enterprises

From the result of a questionnaire sent to 100 enterprises, it is find out that Internet has already considerably spread to these small and medium enterprises and needs of utilization of homepages are high.

Examples:

- Succeeding continual export of the products of own company utilizing homepages and obtaining a buyer in USA (a foundry in a farming area)
- Selling the products through Internet using a site of Economic and Trade Commission (a construction machine manufacturer)
- Having started B to B business (a food package machine manufacturer)
- Most of companies in Datong Ward high-tech small and medium firms industrial complex are using websites to publicize their corporate information and products with photographs.
- Under the guidance of the Automotive Industry Office, 50 automobile parts manufacturers in the city are putting details of their corporate investment plans in view of trading with foreign countries.

(2) Problem Analysis with PCM (Project Cycle Management) Method

PCM is an international method, but, at first, we were afraid that the PCM method is suitable or not for the Chinese climate. However, since the importance of project management was requested from Economic and Trade Commission to the investigation commission and the PCM was proposed corresponding to the request, our proposal was easily accepted. This is considered because of acquaintance with international method, since the C/P is Office of the World Bank. The followings are the simple explanation of the main points to the related persons by the investigation commission in October 2000.

<Why is the PCM used in this project? >

The PCM was thought in Germany and developed by The Foundation for Advanced Studies International Development (FASID) in Japan. Further, this method evaluates not only the achievement degree to the object, but also from the wide viewpoint, and Development Assistance Commission (DAC: Adjustment organization of opinion of the aided country) of Organization for Economic Cooperation and Development (OECD) is also recommended.

The PCM is performed for several years, and has been used to evaluate a project, to which much manpower and materials are committed. However, this project is the development investigation to be completed on August 2001, and may not be a suitable method based on this point of view. The cause to use this method regardless of the time is as follows.

① It is taken seriously that the opinions of Economic & Trade Commission, Shenyang chamber of

commerce and organizations expected to take part in the project are listened in the planning stage of the pilot project, and many view points are discussed, that is, taking part type planning.

- ② A budget will be separately prepared for this project by JICA. Therefore, the effectiveness of commitment of expense would like to be evaluated.
- ③ This project will complete on August 2001. The continuation after completion of the project, that is, sustainability is most important, and it is necessary to evaluate and confirm the project at the stages of planning and starting.

Putting into problem analysis with PCM (November 22, 2000)

Investigation subject : Obstruction factor for small and medium enterprises promotion in Shenyang City

Participants : China side The Office of The World Bank, The office of SME, The Credit guarantee Center of SME , Service Center of Technology Improvement , Industrial Technology Center , Century Technical Consulting Company 8 members
Japan side 4 members (including an interpreter)

Results : Although the first experience on China side and short time, 80 cards is submitted, including problems coming to the core. The problem analysis obtained the first expected results, though having no time to further analyze focusing the problems. When classifying the problems, they are concentrated to information, market and able people (others are financing, management of enterprise and roles of government), and the selection of small and medium enterprise information system for the pilot project is considered to be adequate. Table 10-1-1 shows the results.

Table 10-1-1 Obstruction Factor for Small and Medium Enterprises
Promotion Pointed out with PCM

| Problem | English |
|------------------|---|
| Funds | Shortage of floating funds |
| | Shortage of funds |
| | Financing is difficult. |
| | Limited by investment environment of city |
| | Financing is difficult. |
| | No fund for development |
| | Collecting account receivable is difficult. |
| | Procuring funds from bank or stock market is difficult. |
| | Shortage of funds |
| | Shortage of funds |
| Competent people | Shortage of excellent able people |
| | Shortage of technical developing people |
| | Shortage of able people |
| | Shortage of able people |
| | Shortage of able people |
| | Shortage of manager of high level |
| Competent people | Shortage of training of manager of small and medium enterprise |
| | Shortage of suitable able people |
| | Shortage of development of human resources |
| | Shortage of able people of management |
| | Level of manager is low. |
| | Occupational mechanism of managing organization is unclear. |
| | Too much depending on experienced person market |
| | Shortage of high-technical worker |
| | Shortage of effort of employment of able people |
| | Shortage of knowledge about own occupation of manager |
| | Shortage of appeal of corporate representative |
| | Schooling of manager is low. |
| | Cannot be ranked in business. |
| | Shortage of retraining of laid off worker |
| | Shortage of upbringing of person |
| Information | Shortage of information from relevant organization and rival |
| | Shortage of information, not smooth |
| | Information does not smoothly flow. |
| | Market information does not smoothly flow. |
| | Information collection in small and medium enterprise is difficult. |
| | Shortage of effective information |
| | Shortage of collection of management information |
| | Cannot timely utilize IT technology |

| Problem | English |
|-----------------------------|--|
| Marketing | Shortage of sales management |
| | Shortage of customer development |
| | Shortage of marketing specialist |
| | Shortage of catch of consumption trend |
| | Shortage of catch of market trend |
| | Shortage of cooperation with R&D organization |
| | Having no fixed large customer |
| | Cannot compete with oversea rivals |
| | Having no established products |
| | Shortage of sales management |
| | Shortage of customer development |
| | Lack of competitive technology |
| | No market developing ability of own products |
| | Not having good products |
| | Market problem |
| | Not having worldwide saleable products |
| Enterprise management | Having no long term promoting plan |
| | Having no promoting strategy and plan |
| | Having no prediction of enterprise promoting and market |
| | Shortage of enterprise culture and centripetal force |
| | View and emotion of manager (term as manager in state ownership) |
| | Having no advanced enterprise culture |
| | Having no effective partner (oversea) |
| | Little human interchange with oversea |
| | Shortage of routes of international collaboration |
| | Quality control methods are delayed. |
| | Technology and equipment are delayed. |
| | Shortage of production control technology |
| | Not constructing of post responsible system yet. |
| | Shortage of reward and punishment system |
| Level of management is low. | |
| Society system and policy | Shortage of interest of government |
| | Little interest of government |
| | Not separated management and ownership |
| | Problem of system |
| | Chinese government looking after you |
| | Having no advanced enterprise system |
| | Shortage of support organization for small and medium enterprise, consulting, technology, management, credit guarantee, etc. |
| | Not fitting of small and medium enterprise management organization |
| | Few chances of tie-up with oversea enterprise |
| | Having no leading company |
| | Few entertainments |

10.1.3 Planning of Pilot Project

In the beginning, the main theme of the pilot project was to establish Information network. The Study Team and the Economic and Trade Commission repeated discussions on it. In November 2000, the Economic and Trade Commission opened the Information network for enterprises. The Commission had an idea that it would develop and add the information network for small and medium enterprises as a part of this network. Therefore, the pilot was regarded as a realization of the idea, and both sides agreed to collaborate in building the information network for small and medium enterprises. Fig. 10-1-2 is the network configuration which is added the pilot project to the China's original plan.

(1) Preparation of PDM-1 (the Project Design Matrix)

After an outline of designs was given by the Investigation Team and the Economic and Trade Commission, the Project Design Matrix (PDM) was prepared.

Day and time : November 29th (Wednesday), 2000, 10:00 to 12:15 am
of preparation

Place : Shenyang World Bank Loan Industry Project Management Office.

Attendants : **【China side】** Assistant Director of Shenyang World Bank Loan Industry Project Management Office, Head and staff of Shenyang Small and Medium Enterprises, General Manager of Shenyang Economic and Technical Service Center/person in charge of Information Center, Staffs of Adjustment Division of Economic Structure under Shenyang City Economic and Trade Commission, Staffs of local consultant company in Shenyang City and others; nine persons in all
【Japan side】 5 study team members (including an interpreter)

Achievement : Preparation under a limited length of time

As the length of time for preparation in that day was limited due to time schedules of both China and Japan sides and as it was supposed to be impossible to deal with all elements of the PDM within that length of time, it was agreed previously that extent of the preparation work for that day would be limited to such PMD elements as the overall goal, project purpose, output, activities, objectively verifiable indicators, means of verification. Other elements such as important assumption, preconditions, and resources and manpower to be invested were to be discussed later on.

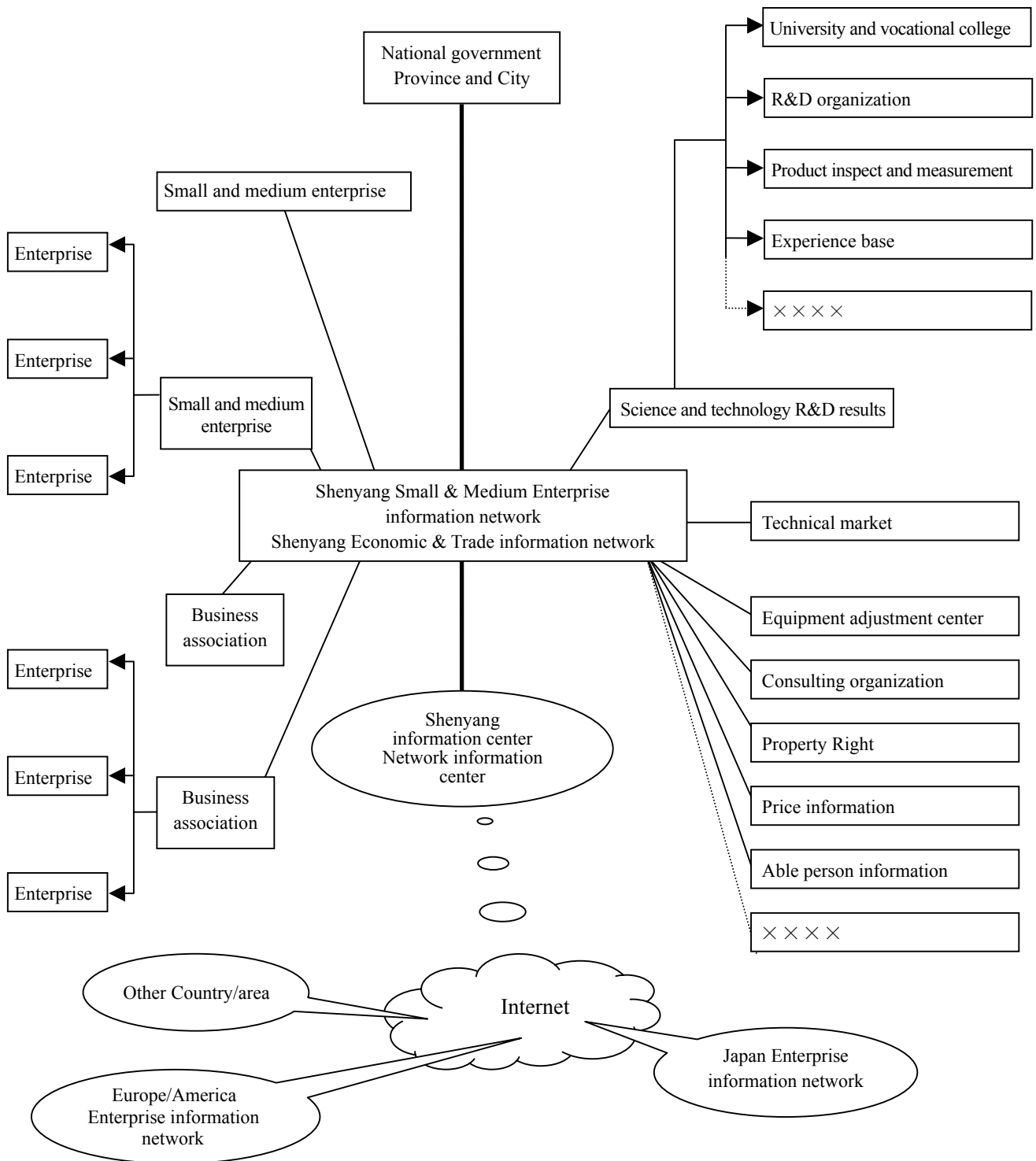


Fig. 10-1-2 Network Configuration of Shenyang Economic and Trade Commission

1) Overall goal and project purpose

As the overall goal, some were presented from China side. Opinions of all the attendants were summarized and “promotion of small and medium enterprises in Shenyang City” was chosen as the overall goal.

While, following five ideas were presented as project purpose but they could not be summarized. So, all of them are given in this report.

- a) To make users understand the importance of network and to improve information of enterprises and methods to utilize them”
- b) Government enhances the guidance and services to SMEs by realizing the network”
- c) To establish the information network and to offer proposals for improvement of SMEs”
- d) Government offers concrete supports for SMEs to obtain information on the network”
- e) Construction of the information network”

2) Output

“Output” is items that should be surely realized in order to achieve the target of project. Opinions offered about the results are classified into following two groups.

- a) “Development of information revolution as a result”

“Realization of information revolution in management and in operation in the market of SMEs,” “improvement in the SME managers’ power of understanding of information outside of the enterprise,” “improvement in information source routes of SMEs” and “increase in various information about the affiliated companies.”

- b) “Other output to be realized”

“Remarkable increase in amount of information on the home pages and of web sites of SMEs on the network,” “improvement in technical level of SMEs” and “realization of trade on the network (e-commerce).”

3) Activities

Opinions offered about the “cooperative activities to be invested” to realize the results of the project are also classified into some groups as follows.

- a) Cooperative activities to be invested in order to promote the information revolution, such as personnel, fund, apparatus and materials and others.

“Development of software and additional installation of hardware that are required for information network,” “enhancement of business education to personnel in SMEs,” “realization of information network,” “increase in various information necessary for SMEs,” “enhancement of training of personnel” and “enhancement of bringing up of personnel.”

- b) Other cooperative activities to be invested

“Establishment of information center,” “improvement of information consulting and diagnostic check services to enterprises using internet” and “preparation of menu screen about information of business of world and Japan.”

4) Indicators

Regarding “indicators” to measure the achievement of project objectively, various ideas as follows were presented, though some of them were not seem to base on the correct understanding of “indicators.”

- a) Social indicators

“50% decrease of number of SMEs in deficit operation,” “SMEs’ escape from deficit operation,” “increase in employment, tax yields and GDP,” “increase in tax yields and decrease in deficit,” “significant increase in ordinary profit” and “raise of GDP in every year.”

- b) Indicators considered to be real project indices

“Increase of number of network utilizing enterprises,” “contribution of information on the network to profits of enterprises,” “network dependency of enterprise’s purchasing (stocking)” and “network dependency of sales.”

c) Other indicators

“Number of enterprises offering home pages reaches to 100, and offering of information necessary to enterprises,” “SME supporting network will open in August next year and shares of many SMDs will rise.”

5) Means of verification

Following opinions were offered, though considerable number of fears for availability of such data until August 2002 were expressed.

“Employment rate (Labor Bureau/Statistics Bureau), increase in tax yields (Taxation Bureau) and rate of increase of GDP (Statistics Bureau),” “commercial information departments of enterprises and information center summarize and provide data,” “data of Shenyang Municipal Statistics Bureau” “data of office that manages Shenyang municipal government network,” “data concerning Taxation Bureau,” “shares of enterprise’s products and number of enterprises that have escaped from deficit (statistical data)” and “sum of ordinary profit (statistical data).”

Further, according to the explanation from China side, “tax payment of enterprises is announced monthly by Taxation Bureau and number of enterprises that have escaped from deficit is announced by the Statistics Bureau.”

That concludes for the PDM preparation work in the primary on-site investigation. Work for elements other than the above such as important assumption, preconditions, inputs and relationship between each element will be performed during the second field survey.

Table 10-1-2 Project Design Matrix (PDM1)

Project: Information Network Service for Small and Medium Enterprises

Period: October, 2000 – August, 2001

Place: Shenyang city, China

| <Narrative Summary> | <Objectively Verifiable Indicators> | <Means of Verification> | <Important Assumption> |
|--|---|---|--|
| <p><Overall Goal> Promotion of small and medium enterprises (SMEs) in Shenyang City</p> | <p>Decrease in number of SMEs in Shenyang City in deficit operation</p> | <p>Business reports of enterprises registered with database (DB)</p> | <p>Factors of business fluctuations seen from the viewpoint of Country or Province are excluded.. Period taken into account is some years starting from October 2000.</p> |
| <p><Project Purpose> To support SMEs' acquisition and sending of information by means of constructing information network and to support their operation of the network</p> | <p>Progress of construction of the information network Number of access to the information network</p> | <p>Economic and Trade Commission</p> | <p>Period taken into account is one year starting from October 2000.</p> |
| <p><Outputs> 1) Introduction of enterprises and PR of products 2) Commencement of technical business negotiation with Japanese enterprise 3) Sending of information on company's own technical needs 4) Increase in amount of information for management 5) Opening of information to the public by enterprises as well as deregulation 6) Spreading of global tool of management</p> | <p>Number of home pages of SMEs Number of access to Japan's technical information Number of technical business negotiations Amount of information on needs of SMEs Amount of information registered with DB</p> | <p>Economic and Trade Commission Japan's supporting organization to this project</p> | <p>Objects are limited to 100 enterprises that are visited and investigate this time. Enterprise management information is that of enterprises investigated this time.</p> |
| <p><Activities> 1) To support enterprises to make their own HP 2) To support to utilize Japan's technical information 3) To introduce information useful for market expansion of enterprises 4) Gathering and registration of enterprise management information 5) Opening of related information obtained by JICA investigation 6) Opening of examples of diagnosis by JICA 7) Supporting of construction of information network system 8) Supporting of planning of total design concept of HP 9) Consultation for web operation</p> | <p><Inputs> 【Japan side】 Project manager: 3 man-month Specialist 1 (in technology of HP preparation): 3 man-month Specialist 2 (web operation/Japan link): 8 man-month Hardware Net server: 1 set Work station: 1 set PC: 5 sets Development of software for HP (to be consigned): 27 man-month</p> | <p>【China side】 (Up to completion of pilot project) Project manager: 3 man-month Specialist 1 (in technology of HP preparation): 3 man-month Specialist 2 (web operation/Japan link): 3 man-month Hardware Net server: 1 set Work station: 1 set PC: 35 sets Development of software for HP (to be consigned): 27 man-month</p> | <p><Preconditions> Minimum required budget for the project could be secured on both of China and Japan sides.</p> |

(2) PDM-2

When the second field survey was completed, the China side made following requests.

- 1) They want to promote Japan-China joint venture and collaboration as an important measure for small and medium enterprise promotion.
- 2) They want to attach greater importance to the “Information network service system for small and medium enterprises” as an important tool for Japan-China business collaboration.
- 3) They want to develop the “Shenyang SME service center” established in December 2001 as an intermediary for joint venture and collaboration.

Following these requests, the study team discussed with JICA and revised the target of the pilot project and added activities as follows.

As is shown in PDM-1, the project purpose in the past was as follows:

“To support SMEs’ acquisition and sending of information by means of constructing information network and to support their operation of the network.

Based on this, the target was newly expanded and changed as follows:

“To establish the partnership function of the Shenyang SME service center by the completion of the pilot project.”

Table 10-1-3 Project Design Matrix (PDM2)

| <Narrative Summary> | <Objectively Verifiable Indicators> | <Means of Verification> | <Important Assumption> |
|--|---|--|--|
| <p><Overall Goal> Establishment of independent and sustainable partnership function in Shenyang (Partnership function: : exports and imports of products, business tie-up (production, sales), joint venture and collaboration, technology transfer)</p> | <p>Preparation of the system and organizations.</p> | <p>Monitoring evaluation results based on PCM method</p> | <p>Leadership of Shenyang city government.</p> |
| <p><Project Purpose> Fix of partnership function of Shenyang city's service organization for small and medium enterprises by the end of the pilot project.</p> | <p>Number of access to the information network Number of corporate guidance Number of intermediary consulting</p> | <p>Same as above</p> | <p>Full understanding and high awareness of this project by enterprises and administrative officials. Past achievements of people concerned.</p> |
| <p><Outputs> 1) Home pages (websites) of small and medium enterprises for their publicizing will increase, which leads to increase in inquiries from the inside and outside of China. 2) Small and medium enterprises' reception and transmission of information flow will increase dramatically 3) Service center for small and medium enterprises and Information service center will perform partnership functions on their own. 4) Small and medium enterprises credit guarantee center will contribute to smooth joint venture and collaboration of enterprises through business accounting guidance. 5) Small and medium enterprises' network manual will developed and spread among Chinese enterprises.</p> | <p>Number of home pages of SMEs Number of access to Japan's technical information Number of technical negotiations and intermediary business negotiations Amount of information on needs of SMEs from Japanese businesses Amount of information registered with DB Number of access to cash flow management HP Number of enterprises that received shallow management guidance.</p> | <p>Information service center, Small and medium enterprises service center Japan's supporting organization to this project Administrative department of each industrial development area and region</p> | <p>Increase in frequency of personal computer use in small and medium enterprises' employees. Desire to improve management on their own and self-help efforts of small and medium enterprises.</p> |
| <p><Activities> 1) To support preparation of HPs to introduce enterprises. 2) To support construction of information network system. 3) To register Japanese technical information with the database. 4) To register enterprises' market expansion information with the database. 5) To release related information surveyed by JICA (introduction of corporate improvement examples) 6) Cash flow management OJT 7) Operational guidance for the Service center for small and medium enterprises. 8) Partnership consulting 9) Workshops (3 times in total) At the final report stage, seminars on cash flow, partnership and use of network will be held. 10) To review the small and medium enterprises support system after the completion of the pilot project to make proposals.</p> | <p>【Japan side】 Project manager: 3 man-month Specialist 1 (in technology of HP preparation): 4 man-month Specialist 2 (web operation/Japan link): 6 man-month Hardware Net server: 1 set Work station: 1 set PC: 5 sets Development of software for HP (to be consigned): 27 man-month</p> | <p>【China side】 (Up to completion of pilot project) Project manager: 1 Specialist 1 (in technology of HP preparation): 8-10 Specialist 2 (web operation/Japan link): Hardware Net server: 1 set Work station: 1 set PC: 35 sets Development of software for HP (to be consigned): 27 man-month</p> | <p>Positive and cooperative posture of Chinese people concerned</p> <hr/> <p><Preconditions> Minimum required budget for the project could be secured on both of China and Japan sides.</p> |

10.1.4 PCM Problem Analysis

Date : June 28th, 2001

Objective : Construction of the Information network was under way. This meeting was held to detect problems in operation and supporting system of the network, in particular, early to take countermeasures.

Subject : Difficulty in the information network development

Attendants : **【China side】** Heads of Shenyang, Information Center, SME Service center, SME Credit Guarantee Fund; four persons in all
【Japan side】 3 members of the study team (including an interpreter)

(1) PCM Meeting Condition

It was expected that responsible results could be obtained because all the attendants are people in charge of four organizations that will be involved in the system operation. However, the attendants had no experience of PCM. Before starting the discussion, the study team gave brief explanation and one of the team members served as a moderator. The study team members only observed the discussion and all the opinions were expressed by China side. The meeting was about one hour long, but there was a lively discussion.

(2) Results

As is shown in Table 10-1-4, the problems presented in the PCM can be summarized into four items. These problems were discussed in the conference committee. As for enhancement of promotion system, we confirmed that the small and medium enterprise office would continuously adjust and take the leadership. Both Japan and China will discuss countermeasures for other items.

Table 10-1-4 PCM Problem Analysis

| Publicity and advertisement | Operation and organization | Operation funds | Japan-China partnership support |
|---|---|--|--|
| <p>Enterprises are not interested in the contents of the net.</p> <p>Companies are not aware of the net.</p> <p>Advertisement to increase the use are not placed.</p> <p>Advertisement of the network is not placed.</p> <p>Existing websites are not widely known.</p> <p>Advertisement of the Information Service Center is not placed.</p> <p>Systematization of the information net, collection and organization of information must be done to be promulgated.</p> <p>Successful cases of the Service Center should be advertised.</p> | <p>How should we provide the information collected by our service organization with other corresponding organizations and put it on the net?</p> <p>The role of the service center is unclear.</p> <p>In the net construction process, interrelationship and cooperation among departments concerned should be clearly defined.</p> <p>In each department, function of maintaining the net is not clear.</p> <p>If a company finds something they cannot understand with the use of cash flow management software, how should they respond to it?</p> <p>How should they respond to the information updating speed?</p> | <p>Funds for construction of the project is not raised.</p> <p>What will they do with the cost of intermediary service in the future?</p> <p>What kind of maintenance group will be formed from now on?</p> <p>How should they make use of the net to produce economic benefit.</p> <p>Mass advertisement of the net requires expenses.</p> <p>The government's cooperation and subsidy are required to spread and maintain the net.</p> <p>Information collection on the China side and the search for Japanese partners require manpower, goods and capital.</p> <p>Where should they get them?</p> <p>Funds for following items are short in supply : hardware and software for the project, communication expenses, personnel expenses and net advertising expenses</p> <p>Maintenance of the project after completion</p> <p>What will be the aging character of the Japan side information provision?</p> <p>What should they do to increase the use of one-stop website by enterprises?</p> | <p>On the Japan side, which organization will deal with the small and medium enterprise service center?</p> <p>Will Chinese information on joint venture and collaboration be released on the net directly, or will it be informed with the Japan side simultaneously?</p> <p>Japanese information on partnership should be provided in English with the small and medium enterprise service center.</p> <p>Japanese intermediary organization should meet with Chinese counterpart and clarify the function and responsibility of each.</p> <p>Usually, Japan-China joint venture and collaboration can receive political assistance from the government.</p> |

10.1.5 Follow-up Plan Development by China Side (PDM 3)

Date : August 7th, 2001

Objective : At the final stage of the information network construction, plans should be made for the China side to maintain and develop the system on their own after the support of the investigation team is completed.

We refer to this meeting as PDM3 with continuity taken into consideration.

Agenda : Maintenance of the information network service for small and medium enterprises

Attendants : **【China side】** The heads and the staff of Shenyang, Information Center, SME Service Center, SME Credit Guarantee Fund; ten persons in all
【Japan side】 3 members of the study team (including an interpreter)

(1) Contents of the Plan

Table 10-1-5 shows the contents.

(2) Direction for the Future

PDM 3 is regarded as the China side's intention to develop this system. Specific discussions were not made on manpower and expenses. The study team contends that the SME service center will promote this system in collaboration with other SME support bodies, and implement action plans which the study team proposes.

Table 10-1-5 Project Design Matrix (PDM3)

Project: Maintenance of Information Network Service for Small and Medium Enterprises

Period: August, 2001 – September, 2002

Place: Shenyang city, China

| <Narrative Summary> | <Objectively Verifiable Indicators> | <Means of Verification> | <Important Assumption> |
|--|---|--|---|
| <Higher rank target> Establishment of long-term partnership function between Shenyang city service organizations for small and medium organizations and Japan (Partnership function: exports and imports of products, business tie-up (production, sales), joint venture and collaboration, technology transfer) | Preparation of the system and organizations. | Monitoring evaluation results based on PCM method | Leadership of Shenyang city government. |
| <Project Purpose> Both Japan and China sides prepare service organizations and information net for partnership to strengthen the bilateral tie-up. | Clarification of partnership in organizational chart. Contribution of each organization. | Monitoring evaluation results based on PCM method | Long-term assistance by Japanese specialists |
| <Outputs> 1) Establishment of Japan-China partnership tie-up route and tie-up methods. 2) Increase in collaboration between Japan and China 3) Preparation of corporate information net between Japan and China. 4) Increase in number of small and medium enterprises' HP. 5) Increase in cash flow management enterprises | Number of Japan-China collaboration contracts. Number of access to Japan's technical information, number of access to small and medium enterprises' HP, number of access to cash flow on the information net | Shenyang city service center for small and medium enterprises Information service center | Partnership activities. Government support for information net activities. |
| <Activities> 1) To step up efforts for independent management of Shenyang city service center for small and medium enterprises and information service center. 2) To strengthen PR of activities by Shenyang city service center for small and medium enterprises and Information service center. 3) Continued cooperation of Japanese specialists. 4) To conduct business negotiations between Japanese enterprises and Chinese enterprises. 5) To establish the intermediary support system after matching through information net. 6) To hold regular meetings between partners of Japan and China in each sector. 7) To prepare Japanese intermediary organization and its expansion. | <Inputs> 【Japan side】 Yet to be decided | 【China side】 Information net Management and information 6 Data base maintenance 6 Programming 2 Market Expansion Information collection 8 Intermediary consulting 10 PC 35 sets Development of software for HP (to be consigned): 27 man-month | Positive and cooperative posture of Chinese people concerned <Preconditions> Minimum required budget for the project could be secured on both of China and Japan sides. |

10.2 Information Network Service for Small and Medium Enterprises

10.2.1 Scope of the System

The pilot project is composed of three part, those are the part built up by Japan, the part constructed by China and the part completed through the collaboration with Japan and China. (Refer to Fig.10-2-1).

The scope of the system that participated by Japanese side in this information network system for SME is as follows: (Refer to Table10-2-1)

(1) Purchase and Supply of Hardware

- 1) Net Server: SUN E-450×1set
- 2) Workstation: Hewlett Packard LC2000×1set
- 3) Personal Computer: Legend BY2000×5set

(2) Purchase and Supply of Basic Software and Tools

- 1) Basic software for Net sever and for Workstation (for each computer)
 - a) OS for Workstation: Windows NT 4.0 Server (25users)
 - b) Database Software Oracle 8i for Netserver
 - Oracle 8i Enterprise Edition for SUN Solaris (20users)
 - SQL*Plus
 - Oracle Internet Application Server (20users)
 - Oracle Programmer
 - c) Development Tools for Web Software for Workstation:
 - Dreamweaver - Photoshop - Flash 1set each
- 2) Basic Software for Personal Computers×5set
 - OS for Personal Computer: Windows 2000 Professional×5set
- 3) Homepage Development Tool×1set
- 4) Web Page Searching Engine×1set

(3) Open Service Items on the Internet (developed as Application Software)

- 1) Support for SME's Homepage Development
- 2) Access Facility for existing Networks including Japanese Web Site

- 3) Supply of Market Enlargement Information
- 4) Collecting and Inputting of SME's Management Information (Restricted open to person who has pass word)
- 5) Publication of useful Information from JICA investigation works
- 6) Examples of Enterprise Diagnosis and Management Guidance
- 7) Transparency Improvement for Enterprise financial Information and Support for financial Reforming

(4) Supporting Items

Furthermore, Japanese side executed following three items in order to operate above mentioned publicized Services efficiently.

- 1) Building up the organization that can operate the information network continuously.
- 2) Propagating actions for SMEs to use information technology
- 3) Technology transfer and suggestion to promote partnership services

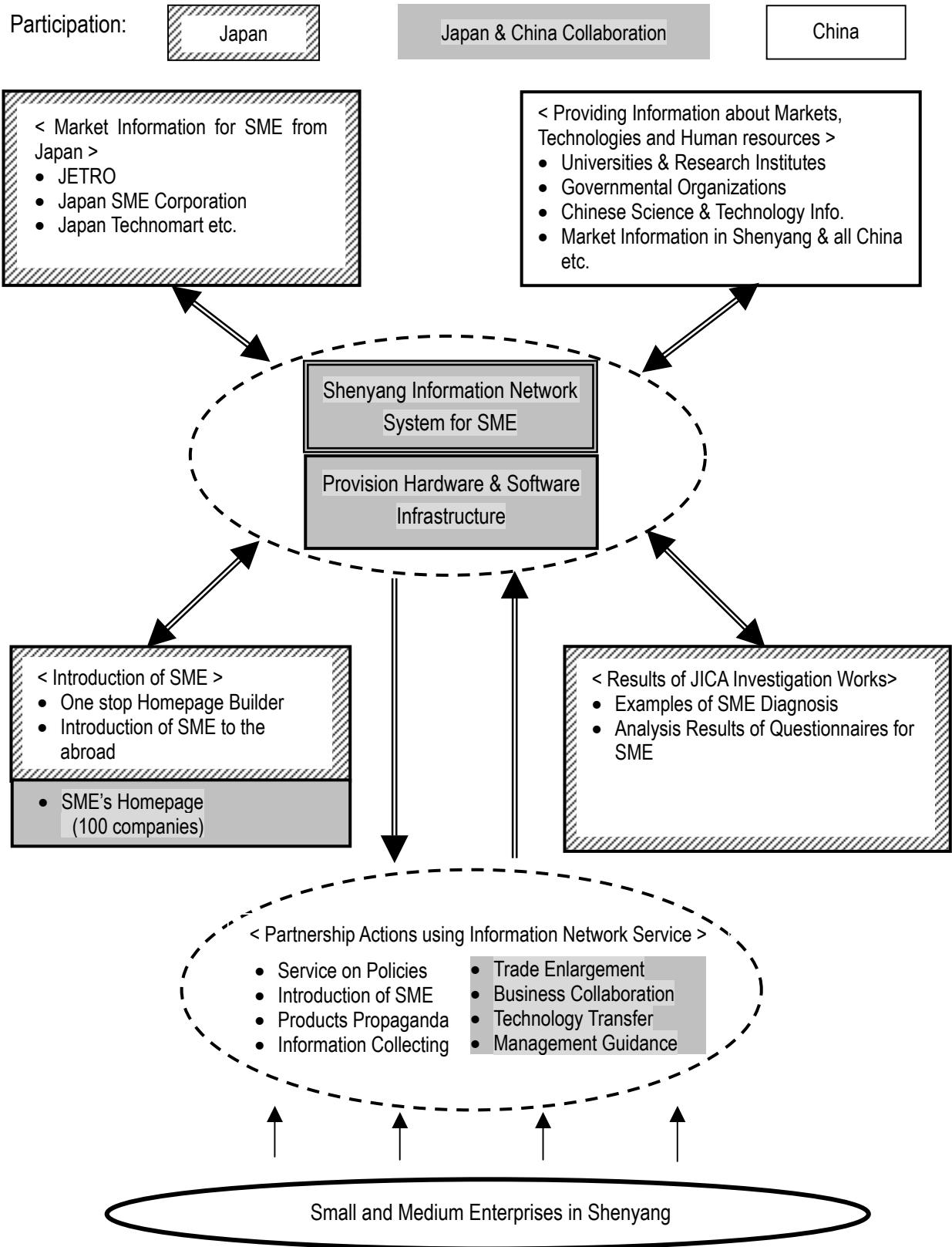


Fig.10-2-1 Conceptual Structure of the Pilot Project

Table 10-2-1 Participation Works of Japan and China

| | Items of Works | Japan | China |
|----|--|-----------------------------------|-------------------------------|
| 1 | Support for SME's Homepage Development | Recommend SME | Self making |
| 2 | Access Facility for existing Networks including Japanese Web Site | Offer of plan and linking address | Linkage making |
| 3 | Supply of Market Enlargement Information | Planning | Web-page making |
| 4 | Collecting and Inputting of SME's Management Information (Restricted open to person who has pass word) | Offer of Survey data | Registration to database |
| 5 | Publication of useful Information from JICA investigation works | Offer of Survey data | Linkage making |
| 6 | Examples of Enterprise Diagnosis and Management Guidance | Offer of Survey data | Linkage making |
| 7 | Transparency Improvement for Enterprise financial Information and Support for financial Reforming | Web-page making / Manual making | Web-page making |
| 8 | Building up the organization that can operate the information network continuously | Supporting / OJT | Organization adjustment |
| 9 | Propagating actions for SMEs to use information technology | Collaboration Plan of web-page | Collaboration Web-page making |
| 10 | Technology Transfer and Suggestion to promote Partnership Services | Support by Expert / OJT | Collaborating work / OJT |
| 11 | Publication of Notice and Publicity from the Government | — | Web-page making |
| 12 | Local Information on Technology and Human Resource of Universities and Research Institutes | — | Web-page making |
| 13 | Publication of Information on Science and Technology in China | — | Web-page making |
| 14 | Publicizing of Market Information of Shenyang and China | — | Web-page making |

10.2.2 Explanations of Servicing Items

(1) Support for Self-preparation of Home Pages to Introduce Each Enterprise

So many enterprises hope to build up their home page at low price. JICA purchased and supplied a tool to Shenyang Information Network center for SME to make up the home page in no expensive and a little effort. The enterprises are selected to build up their home pages among 100 companies that investigation team visited or surveyed and additional 100 companies that each ward recommended. Moreover, counter part support and trained SMEs to build up their home pages. As a result, self-preparation of home pages for each SME had a rapid progress and home pages of 35 companies were publicized.

The home page building tool that JICA purchased and supplied has the ability for each company so as to build up his home page automatically by inputting his data as shown in Table10-2-2 according to the guidance from the tool. This tool is specified for enterprise home page building-up and is ready for inserting photographs or pictures.

Table10-2-2 Input Items to the Home Page Builder

| | |
|---------------------------|---|
| □ Outline of company | |
| • Basic Introduction | History/philosophy/scale/principal business/market/plan/prospect etc. |
| • Greeting from President | Policy/assertion/concept etc. |
| • Official Commendation | Opening of awarded result |
| • Business Report | Introduction of business report and achievement |
| • Quality Certification | Introduction of company's quality certification for products |
| • Contact Address | How to contact to main department and subsidiary |
| □ Products | |
| • Outline of Products | Introduction of features/uses/market/category of products |
| • List of Products | Explanation of sort/name/standard/price/capacity of products |
| • Guarantee of Quality | Introduction of quality control in production process |
| • Production Situation | Introduction of actual production and operation |
| • Products Information | Introduction of products value and social importance |
| □ Services | |
| • Outline of Service | Introduction of contents/market/features of Services |
| • Guarantee of Services | Expression about guarantee of Services |
| • Service items | Name/explanation/inquiry/estimation/dealing etc. of Services |
| □ Dealing | |
| • After Services | Introduction of the after service situation |
| • Sample Shipment | Simple explanation of kind/shipment of sample product |
| • Transport Situation | Simple explanation of transportation capability and traffic conditions |
| • Payment Conditions | Explanation on price and payment conditions of products |
| • Customers | Introduction of main customers of the company |
| • Outline of Dealing | Outline explanation of dealing route and dealing amounts |
| □ Business Collaboration | |
| • Collaboration Matters | Collaboration matters and project with other company |
| • Agents | Explanation of agency products and agency conditions |
| • Projects | Explanation of object and profit for investment |
| • Investment | Explanation of projects or matters to which company intends to invest money |
| □ Purchasing | |
| • Stocking Requirement | Announcement of goods to be purchased, Vender shall response it |
| □ Employment | |
| • Employment Condition | Number of personnel, conditions and requirements to applicants |
| • Employment Contents | List of employment information, application format |
| Company News | |
| (Free Format) | |

(2) Linkage to Existing Networks Including Japanese Site

A plenty of Internet information are supplied to SMEs and general enterprises. Useful information to China was selected among these existing networks and menu page was provided for Chinese people to access these sites. Furthermore, there are a lot of companies or organizations that wish to announce information to China. These home pages of Japanese companies or organizations are listed up and made accessible from China easily.

The adopted Japanese organizations are JETRO (Japan External Trade Organization; head quarter and Dalian), The Chambers of Commerce and Industry (Japan/Tokyo), Japan small and medium enterprise corporation (JASMEC), The Kanagawa High-Technology Foundation and so on. (Refer to Table10-2-3 in the detail)

As for the information sent from Japan, there is a problem of translation into Chinese language. This problem was resolved as follows. The translation tool provided from Chinese side, and the translation function from English to Chinese is executed on each personal computer using open software translation tool in the Internet (www.tjbbc.com.cn).

Table 10-2-3 Linkage to Various Japanese Networks

| | Name of Web site | Services | Comment |
|---|--|--|----------|
| 1 | Japan small and medium enterprise corporation (JASMEC) http://jasmec.go.jp/english/index.html | Guide to the Corporation, Explanation of Activities of each Section (Support to SME), Topics etc. | English |
| 2 | Small and Medium Enterprises Information of Japan http://www.sme.ne.jp/japane.html | Provides information about SMEs' profile, product technology and so on by regional information center | English |
| 3 | Business Matching Database (PARTNER) http://partner.sme.ne.jp/ | Provides you with the new business opportunities with Japanese Small and Medium Enterprises (SMEs). | English |
| 4 | Japan External Trade Organization (JETRO) http://www.jetro.go.jp/top/index.html | Import promotion, Investment /Technology interchange, Economy/Trade Information etc. | English |
| 5 | The Tokyo Chambers of Commerce and Industry http://www.tokyo-cci.or.jp/english/index.htm | Incubation, Venture Support, Management Consulting, Trade Enhance, Support for IT, Supply of Environment and Recycling | English |
| 6 | The Kanagawa High-Technology Foundation http://www.ktf.or.jp/koho/profiles/efront.html | Technology Transfer, Patent /Technology Information etc. | English |
| 7 | SME News from Japan | Import/ Export, Investment, Technology transfer, Business, Exhibition etc. | Japanese |

(3) Information Supply for Market Expansion

The following six services are provided for SMEs or people in Shenyang to search market expansion information (business matching, capital introduction, investment, seeds and needs for purchase/sales products, employment information etc.) that supplied by Chinese enterprises including Shenyang city and enterprises all over the world.

- Retrieval for the enterprise seeking business tie-up
- Retrieval for the enterprise searching agent
- Retrieval for the enterprise seeking to invest
- Retrieval for the enterprise having the necessity of capital introducing
- Retrieval for the enterprise searching to purchase goods
- Retrieval for the people searching employment information

These searching facilities are realized efficiently using data retrieval engine that JICA purchased in this project. The features of the data retrieval engine are as follows:

- The engine makes up the retrieval reference list of word and the web site where the word appears frequently after searching the specified web sites beforehand. Retrieval requirement is treated efficiently and completely using this retrieval reference list.
- The engine is applicable not only to web site but also to database.
- The engine is able to retrieve not only for the combination of several keywords but also for key sentence.

The purpose of this function is that SMEs in Shenyang can obtain necessary information concerning technology transfer, business tie-up, capital introduction, investment, purchase of goods and employment from other district in China and from all over the world in order to market expansion of own company. The menu of the category for retrieval is shown in Table 10-2-4.

Table10-2-4 Menu of the Category for Retrieval

| No. | Name of category |
|-----|--|
| 0 | Not specify retrieval category |
| 1 | Spinning and clothing |
| 2 | Daily necessities, Light industries products |
| 3 | Foods, Drinks |
| 4 | Processed goods |
| 5 | Medical supplies |
| 6 | Mechanical products |
| 7 | Electronics, Electric products |
| 8 | Automobile and parts |
| 9 | Metal goods |
| 10 | Building materials |
| 11 | Computer, Communication equipments |

The outline of each retrieval functions is as follows:

1) Retrieval for the enterprise seeking business tie-up

When an enterprise hopes to tie-up or joint in business with other company, the name of recommendable companies are listed up, if the enterprise inputs the desiring business field as key-word and appoints the range of retrieval according to the menu. Detail information will be shown linked to the home page if you click arbitrary company in the list.

2) Retrieval for the enterprise searching agent

When an agent hopes to search enterprise that is looking for agents, the name of recommendable enterprises are listed up, if the agent inputs the desiring product name as key-word and appoints the range of retrieval according to the menu. Detail information will be shown linked to the home page if you click arbitrary company in the list.

3) Retrieval for the enterprise seeking to invest

When an enterprise hopes to introduce fund from outside, the name of recommendable organizations that hope to invest are listed up, if the enterprise inputs the desiring product or project name as key-word and appoints the range of

retrieval according to the menu. Detail information will be shown linked to the home page if you click arbitrary organization in the list.

4) Retrieval for the enterprise having the necessity of capital introducing

When an enterprise hopes to invest fund to other companies, the name of expecting companies that hope to be invested are listed up, if the enterprise inputs the desiring product or project name as key-word and appoints the range of retrieval according to the menu. Detail information will be shown linked to the home page if you click arbitrary company in the list.

5) Retrieval for the enterprise searching to purchase goods

When an enterprise hopes to purchase goods from outside, the name of recommendable companies that hope to exploit are listed up, if the enterprise inputs the desiring product name as key word and appoints the range of retrieval according to the menu. Detail information will be shown linked to the home page if you click arbitrary company in the list.

6) Retrieval for the people searching employment information

When a person hopes to search enterprise that is looking for laborers, the name of suitable enterprises are listed up, if the person inputs the desiring job name and working conditions as key-word and appoints the range of retrieval according to the menu. Detail information will be shown linked to the home page if you click arbitrary company in the list.

(4) Collecting and Inputting of SME's Management Information (Restricted open to person who has pass word)

Though small and medium enterprises hope to get information on management easily, the measures for them are restricted strictly. We realized following two data input into the database among data gotten through our investigation works. The input formats of these database are shown in Table10-2-5 and Table10-2-6.

Table 10-2-5 Small and Medium Enterprise Databank-1: Market enlargement and Trade

0. Basic items

| | | | |
|------------------------------------|--------------------|---------------------|---------------------|
| Registration/ modification date | First registration | Former registration | Recent registration |
| | | | |
| Person registered | Name | Registration ID | Password |
| | | | |

1. Outline of the enterprise

| | | | | |
|---------------------------------------|--------------------|----------------------------------|----------------------|--------|
| Title | Name of enterprise | Name of president | Post number /Address | |
| | | | | |
| Contact address | Telephone number | E-Mail | Home Page Address | |
| | | | | |
| Style / field of enterprise | Style | Field /Category | | *1, *2 |
| | | | | |
| Name of products | Sales the 1st | Sales the 2nd | Sales the 3rd | Others |
| | | | | |
| Sales amount of products | Sales the 1st | Sales the 2nd | Sales the 3rd | Others |
| | | | | |
| History of enterprise | Established year | Year changed to present style | | |
| | | | | |
| Contact to relational enterprise 1 | Telephone number | E-Mail | Home Page Address | |
| | | | | |
| Contact to relational enterprise 2 | Telephone number | E-Mail | Home Page Address | |
| | | | | |
| Contact to relational enterprise 3 | Telephone number | E-Mail | Home Page Address | |
| | | | | |
| Contact to relational enterprise 4 | Telephone number | E-Mail | Home Page Address | |
| | | | | |
| Contact to relational enterprise 5 | Telephone number | E-Mail | Home Page Address | |
| | | | | |

Table 10-2-6 Small and Medium Enterprise Databank-2 Evaluation of Enterprises

| | 1997 | 1998 | 1999 | 2000 |
|---------------------------|------------|---------------|--------------------------|-----------------|
| Capital (#) | | | | |
| Total asset (1000RMB) | | | | |
| Sales amount (#) | | | | |
| Total profit (#) | | | | |
| Ordinary profit (#) | | | | |
| Tax payment (#) | | | | |
| Employee (person) | | | | |
| Mean wages (RMB/month) | | | | |
| Fixed expense (#) | | | | |
| Facility investment (#) | | | | |
| Long term loan (>1 year) | | | | |
| Short term loan (<1 year) | | | | |
| Customer | In group % | In province % | Domestic % | Foreign % |
| | | | | |
| Site space | | | | |
| Factory building space | | | | |
| Transportation of product | | *3 | | |
| Production style | | *4 | <input type="checkbox"/> | Can be canceled |

3. Document introducing enterprise outline (existing as follows)

| | |
|------------------------|--|
| Guidance of enterprise | |
| Catalog of products | |

4. Market enlargement and trade information

| | |
|---------------------------------------|--|
| Prominent field | |
| Expert technology | |
| Patent | |
| Market enlargement desiring products | |
| Sales enlargement desiring technology | |
| Market enlargement desiring service | |
| Tie-up desiring project | |
| Agent inviting products | |
| Conditions to agent | |
| Invest desiring project | |
| Fund introduction desiring project | |
| Purchase desiring goods | |
| Name to be contact | |
| Contact telephone No. | |
| Contact FAX | |
| Contact E-Mail | |

(5) Publication of Useful Information from JICA Investigation Works

JICA study team executed survey works for enterprises, related governments, monetary facilities, universities, research institutes and educational organizations in order to make useful suggestions. We assembled and disclosed fruitful ones among these information obtained from the survey. The following one item was publicized actually.

1) The assembled result of questionnaire to 100 enterprises visited and surveyed

At first, we were planning to disclose “total result and analysis of enterprise diagnostic survey” for enterprises visited and surveyed. However, because there contained secret matters for each enterprise, and disclosure was canceled according to the opinion of counterpart.

(6) Examples of Enterprise Diagnosis and Management Guidance

The diagnostic group in the study team practiced enterprise diagnosis for model companies in Shenyang and completed case study report of diagnosis. We arranged this result and opened on web page. The contents are composed of flowchart for diagnosis, menu of one-day diagnosis and actual diagnostic results applied for ten model enterprises.

Transparency Improvement for Enterprise financial Information and Support for financial Reforming

JICA study team developed the method to learn cash flow accounting easily and Excel tool to use the method actually on personal computer, and publicized these on web page.

10.2.3 Framework of Project Practice

The pilot project was practiced by Chinese working organization for Shenyang SME information network and Japanese working member. (Refer to Fig.10-2-2) Chinese working organization will continue to operate and maintain the Shenyang SME information network successively after the pilot project completed. However, there will be no big problem because they have the experience of operating the economic and trade information network already.

(1) Works of Chinese Side

The developing work from design to unit test was ordered from software company Choge Fulong in Beijing after the specification analysis by Japanese side finished. The scope of work, contract price and delivery time were agreed as planned at first. “Requirement

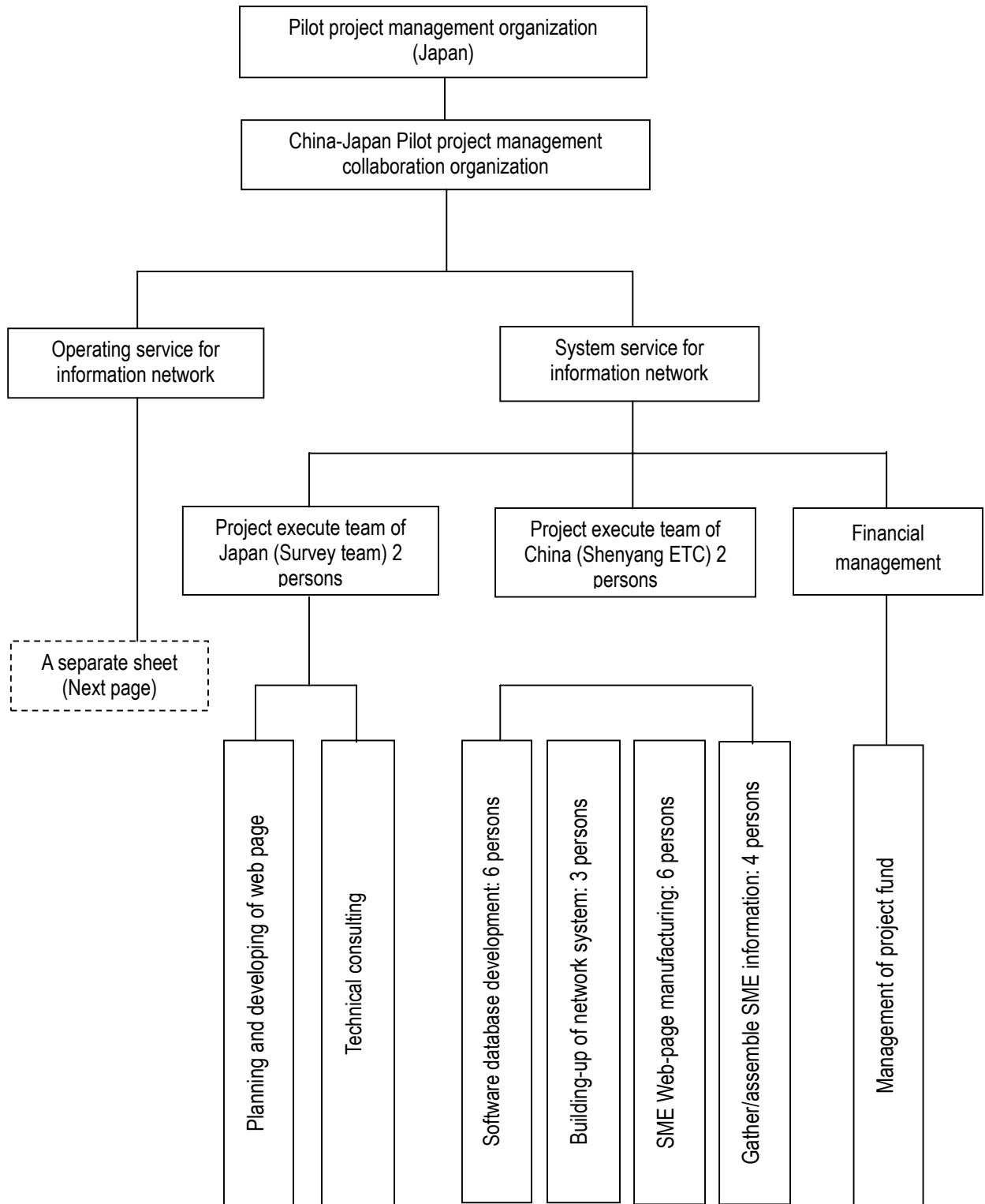
specification” was prepared by Japanese side and development was executed by Chinese side according to this specification. The amount and content of software development work by Chinese side were as follows: (total 27 man-month)

- System engineer : 8 man-month
- Senior programmer : 8 man-month
- Intermediate programmer : 6 man-month
- Data input worker : 5 man-month

(2) Works of Japanese Side

The following experts were dispatched from Japan in order to support promoting pilot project successfully. These experts practiced specific supporting such as negotiation and survey to Japanese relevant organizations, survey of field needs and actual conditions, and intercourse promotion between user and Japanese service agency or enterprise. And the experts also executed technology transfer to the counterparts. The works were executed in order that the system shall be operated smoothly after pilot project completed and the target could be accomplished in each covering field.

- Technical supervisor : coordinating of information network system
- Technical support : Information network system and direction to software development
- Market enlargement-1 : Market information & guidance to business matching practice
- Market enlargement-2 : Business matching support and negotiation to Japanese agency
- Market enlargement-3 : Trade information and guidance to business matching practice
- Finance improvement-1 : Guidebook making for cash flow finance and practice support
- Finance improvement-2 : Making of tool for cash flow finance improvement
- Support to SME service center : support for SME services to Dadong ward.



(Continued from former page)

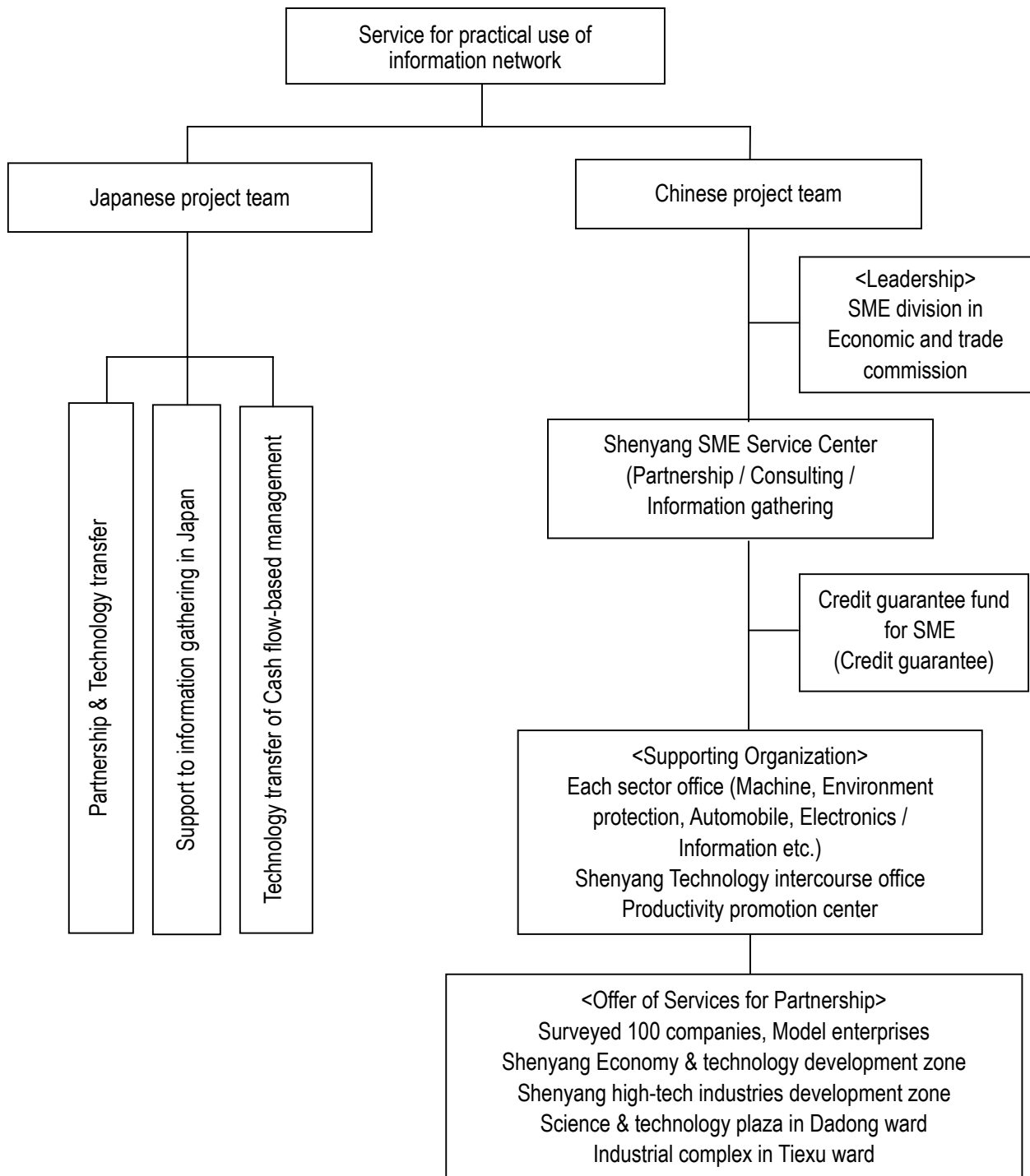


Fig.10-2-2 Promotion Structure for Pilot Project

10.2.4 Progress of Project Works

Total flowchart of survey works for pilot project is shown in Fig.10-2-3. Furthermore, construction schedule of information network system is shown in Fig.10-2-4.

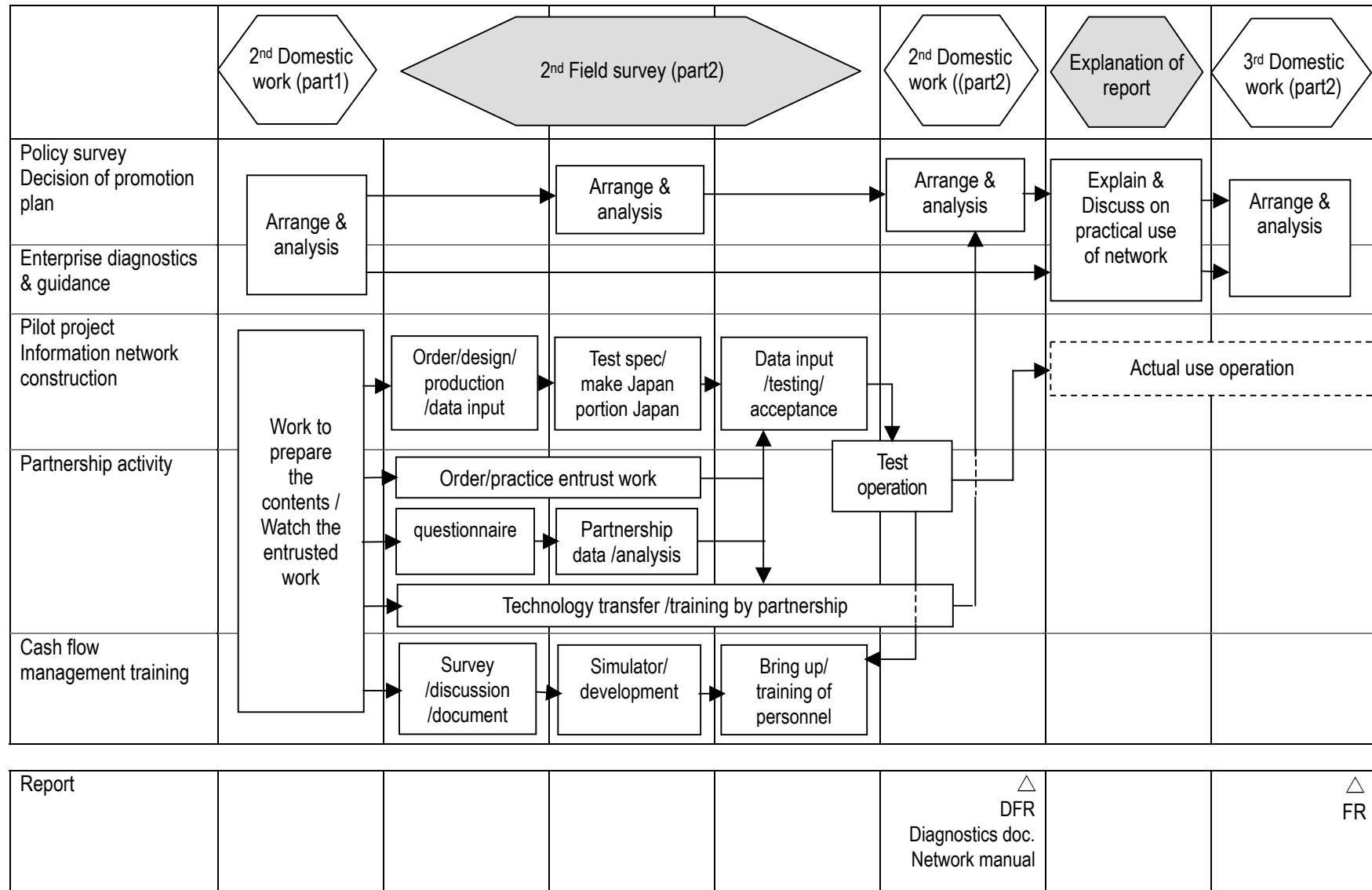
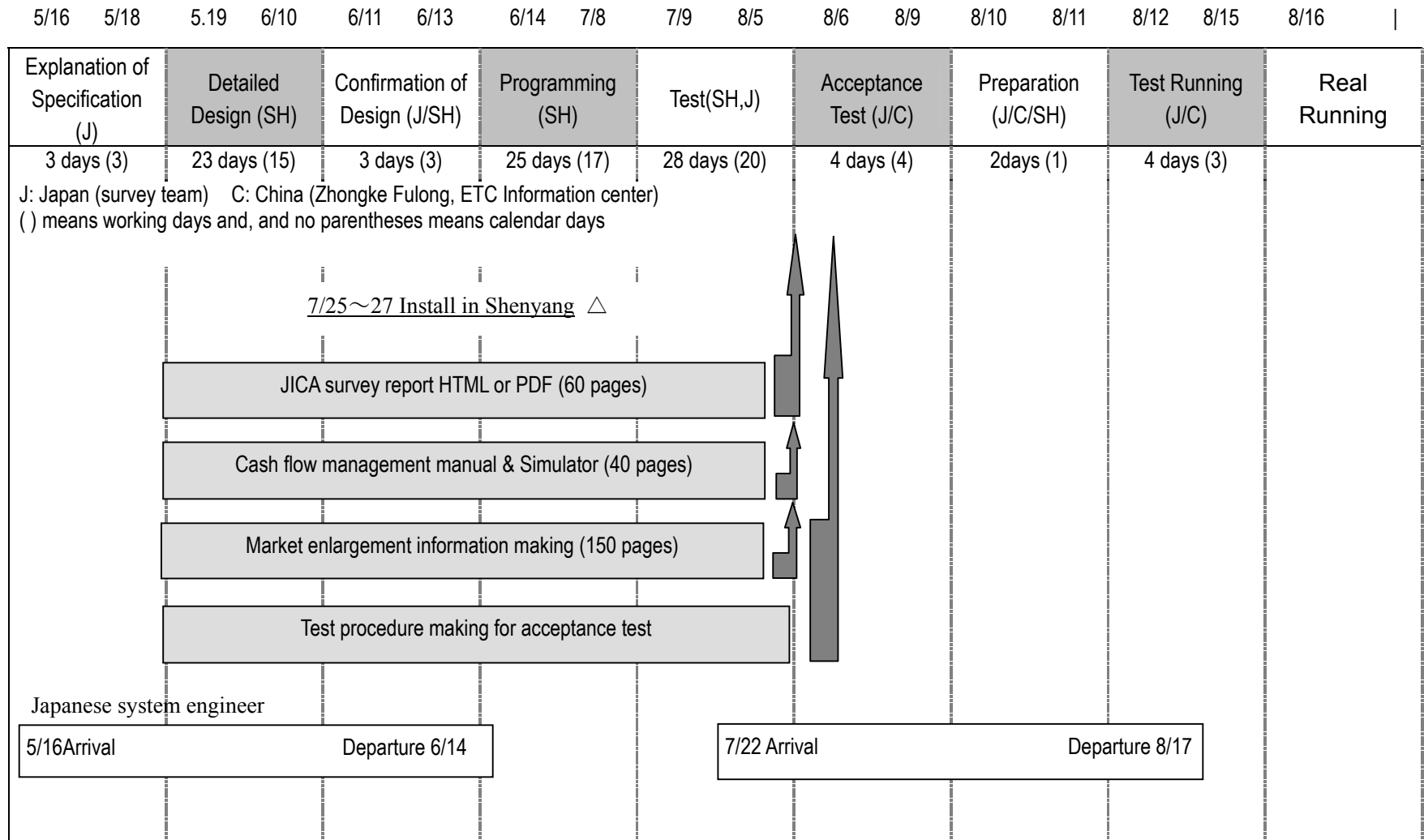


Fig. 10-2-3 Total Flowchart of Survey Works for Pilot Project



(2001.8.10)

Fig.10-2-4 Construction Schedule of Information Network System

10.3 Partnership Activities

10.3.1 Details of the Partnership Activities

The partnership activities of this pilot project consist of the following businesses :

- (1) To input information dispatched by and related to the Japanese side of the partnership into the information networks for SMEs.
- (2) To organize an intermediating structure of the partnership activities. In order to promote this organization, to carry on the intermediating businesses jointly with the Study Team and to transfer the necessary technologies on the OJT basis.
- (3) To find out the partnership needs / seeds of the Chinese side and send these pieces of information through information networks.
- (4) To act as an intermediary for the enterprises which have succeeded in matching their businesses.

As the partnership activities had started before the information network was opened, 7 to 8 cases of business matching had been prepared in advance of the start of the activities. Among those, three cases were related to the model enterprises.

10.3.2 Guidance and Promotion of the Intermediary Organization

At the steering committee in March 2000, the Shenyang Municipal Economic and Trade Commission and the Study Team agreed after discussion that, within the frameworks of the pilot project, 'The SME Service Center established in Shenyang Municipality in December 2000 is to be included in this project and be promoted as an intermediary organization for SMEs that are expected to grow autonomously in the Municipality in the future.'

(1) Business Consignment to the Shenyang SME Service Center

The Study Team expects the Shenyang Municipality SME Service Center to be engaged in the following businesses consigned for the pilot project:

Intermediary Support

- Continuous collection of information to register at the Information Service Center (including information on Japan)
- Intermediation and consultation on joint ventures between Japan and China, etc.

Direct Support

- Enterprise diagnosis and guidance
- Raising the enterprise diagnosticians and sending them to enterprises
- Hosting various seminars and lecture meetings for SMEs
- Guiding and fostering the SME Centers of the ward level

Among those mentioned above, the intermediary support will be subsidized in this project. Shenyang SME Service Center will be engaged in the following intermediary businesses between China and Japan in line with the development of the partnership.

- To assist enterprises in China and Japan in relation to the registration of database of information on needs / seeds.
- To assist matching of needs / seeds.
- To arrange bilateral negotiations inviting Chinese and Japanese enterprises.
- To assist the related parties, toward the last stages of their negotiations, by giving consultation on various aspects, with the counterpart's positions in mind, or by arranging feasibility studies.

In order to make the Shenyang SME Service Center actively participate in the pilot project, the study team consigned the following businesses:

1) Consignment of survey by means of inquiry

Objective : To identify wishes in detail of SMEs in Shenyang Municipality toward Japanese enterprises, the information should have been collected on the information networks. However, since the pilot project was scheduled to be started in May 2000, the method of sending the inquiry in advance was employed.

Targeted enterprises: 100 enterprises that have been visited for survey and 200 enterprises that have participated in the opening ceremony of the SME Service Center.

Contents of survey : In particular, the requirements to strengthen the partner relationship with Japanese enterprises.

Timing of survey : To start in June 2001.

Survey methods : By means of seminars, mailing, visiting enterprises and e-mailing.

Results of survey : The aggregated report in Japanese should be submitted.

2) Request for the support to the intermediary services

During the period of the pilot project, the member of the study team in charge gives support to the intermediary services. After that, the intermediation guidance consultants of the Shenyang Municipal SME Service Center must offer intermediary services by themselves. Therefore, during the period of the pilot project, the guidance on the OJT basis was given with the support of two intermediation guidance consultants.

(2) Making Results of Intermediation Support

For the technology transfer of the intermediary business, the best way is to allow the partners to participate in real intermediary negotiations and to learn on the OJT basis. Since the networks were not in operation around the time when the technology transfer of intermediary business started, the cases prepared by the survey mission were used as examples.

(3) Technology Transfer of the FS (Feasibility Study)

1) Objectives

- a) Consultation of partnership cases must be equipped with the consultant ability. Without such ability, one can only be a mere merchant. Consultants can satisfy their customers by using the theoretical methods and experiences gained through the full usage of these methods. For this purpose, the consultants must have incomparable skills.
- b) By these special skills, consultants can be commissioned and be financially independent.
- c) The reason why the FS methods were adopted as such special skills is because they promote the awareness reform which is most needed in the present day China and, in particular, they reduce the economic loss to be caused by the mistaken investment plans. In China where the planned economy is being adopted, a small number of elites project very well prepared and high-level plans. At the enterprise level, every investment is, without exception, decided after the demand prediction and calculation of the expected investment returns have been completed. However, in reality, diversions from these plans are

common. Therefore, judging from its importance, the technology transfer of the FS based on the market capitalism principles was adopted with the first priority.

2) Choice of the COMFAR methods prepared by UNIDO

Since 1995, UNIDO (United Nations Industrial Development Organization) Technology Transfer Promotion Office has practiced many cases of the FS supports as its principal activities and has made remarkable contributions. In China, there have been 6 such cases. One example is the case of introducing new customers to Japanese enterprises with manufacturing sites in Shanghai. ‘The Manual for the Preparations for Industrial Feasibility Studies’, a UNIDO publication became a best seller.

COMFAR (Computer Model for Feasibility Analysis and Reporting), the computer-soft edition of this manual was later published in more than 10 countries around the world and it became available also in China. The study team adopted this system because, in comparison with the traditional FS methods, it is superior in the number of parameters and sensitivity analysis, and the time needed for processing is much shorter. It was adopted also because it was developed by the UN and was being widely used all over the world and was enjoying reputations from the public organizations and the financial institutions.

The technology transfers have been made by supplying this system to the Shenyang Municipal SME Service Center and implementing training by the instructors of the UNIDO in China.

3) Results of the technology transfer

COMFAR consists of Business Planner III and Expert III. Although the former was sufficient for the FS for enterprises, Expert III was chosen by the will of enterprises that wished to be ready for larger projects expected in the future. A simple software for preparatory surveys called Opportunity Study was also included.

The training was given to 7 staff members of the Shenyang Municipal SME Service Center for 2 days with the instructors sent by the UNIDO in Beijing. The training was highly effective because some of the staff members of the Center were MBA holders or the accounting specialists and some others had already been educated on the FS.

10.3.3 Collection and Analysis of the Needs/Seeds

(1) Collection of the Needs / Seeds in Shenyang Municipality

1) Implementation of survey by inquiry

A survey by way of sending inquiry to SMEs, using the survey sheet sample as shown in the Fig. 10-3-1 was commissioned to and implemented by the Shenyang Municipal SME Service Center.

| Survey Sheet on the Contents for Registration | | | |
|--|--|---------------------------------|---|
| | | | Date answered : _____, 2001 |
| I. Enterprise Profile | | | |
| Name of Enterprise | | (Person in charge of Marketing) | |
| Name of President | | Title and Position | |
| Date of Establishment | | Name | |
| Telephone Number | | Telephone Number | |
| Fax Number | | Fax Number | |
| Field of Business | | E-mail Number | |
| 3 Principal Commodities ① | | Home Page | |
| ② | | | |
| ③ | | | |
| Quality Standards Obtained | | | |
| Number of Employees | | Type of Enterprise | State owned, Private, Collective, Township and village enterprise |
| Capital in 1000RMB | | | |
| Annual Sales in 1000RMB | | | |
| Annual Net Profit in 1000RMB | | Name of Parent Enterprise | |
| Address | | Name of Subsidiary | |
| II. Expansion / Strengthening of Partnership | | | |
| <p>When the expansion / strengthening of partnership with foreign enterprises, that is to say, the expansion of foreign trade, business partnership, technology transfer, joint venture or joint business, are needed, please check the following items and describe the details. In addition, in the case where negotiations are already under way on the items checked, please describe the details and the name of the counterpart.</p> | | | |
| <input type="checkbox"/> Wish to extend export or import. OEM export in the counterpart's brand name is also included. Please choose the number of the related business field from below. The details are: | | | |
| <input type="checkbox"/> Wish to enter into business alliance to expand business by getting business consignment for manufacturing and so forth. Please choose the number of the related business field from below. The details are : | | | |
| <input type="checkbox"/> Wish to receive technology transfer. Please choose the number of the related business field from below. The details are : | | | |

Wish to have a joint venture / collaboration.

Please choose the number of the related business field from below.

The details are :

III. Marketing or procurement of parts, materials or products wanted.

Describe the parts, materials or products that your enterprise wishes to market to or procure from domestic or foreign enterprises, if any.

If you have parts, materials or products that you wish to market.

Please choose the number of the related business field from below.

The details are;

If you have parts, materials or products that you wish to procure.

Please choose the number of the related business field from below.

The details are;

In case you have any charts or pictures that you wish to have printed, please describe so in the following page.

<Business Fields>

(1) Foods / Agriculture and Fishery, (2) Woodworks / Furniture, (3) Pulp / Paper Products, (4) Textiles / Cloths, (5) Construction / Civil Works, (6) Chemical Products, (7) Petroleum / Oils and Fats / Paints, (8) Pharmaceuticals / Cosmetics, (9) Plastics / Rubbers, (10) Glasses / Ceramics and Steel Products, (12) Non-ferrous Metals, (13) Machinery, (14) Home Electric Appliance, (15) Industrial Electric / Electronic Machinery, (16) Information Processing, (17) Measuring Instruments / Precision Machinery / Optics, (18) Automobiles, (19) Machines other than Automobiles, (20) Transportation, (21) Telecommunications, (22) Energy, (23) Publication, (24) Others

< Reference > After the SME Information Network Service is started this coming summer, the adjustment or addition or new registration of the above-mentioned registration items can be made from your enterprise through the network.

Fig. 10-3-1 Sample of Survey Sheet

2) Results of survey by way of inquiry

To the inquiry survey for SMEs in Shenyang Municipality, the answers have been received from more than 80 enterprises by the end of July 2001. The breakdown by industry shows that the majority of the answers is from the industries of machinery with 22 enterprises, followed by the steel products, non-ferrous metals, pharmaceuticals / cosmetics, automobiles and further by foods / agriculture and fishery, constructions / civil works, chemical products, measurements / precisions / optics, etc. On the other hand, what is to be noticed is that answers from the

industries of home electric appliances and industrial electric / electronic machinery are very few. In addition, some 20 enterprises are expected to answer by the end of August.

The detailed contents of the answers related to the partnership are as follows :

Table 10-3-1 Breakdown of Basic Data

| Breakdown Items | | Total number | | Ratio (%) | Remarks |
|--|----------------------------|--------------|----|-----------|--|
| Joint ventures or joint-businesses needed or not | Yes (Concrete Intention) | 62 | 43 | 54.00 | Based on total 80 enterprises |
| | No (Concrete Intention) | | 19 | 24.00 | Based on total 80 enterprises |
| OEM expected | | 38 | | 48.00 | Based on total 80 enterprises |
| Technology transfer expected | Introduction of Technology | 27 | 19 | 24.00 | 70% of those expecting Technology Transfer |
| | Export of Technology | | 8 | 10.00 | 30% of those expecting Technology Transfer |
| Products export wanted | | 32 | | 40.00 | Based on total 80 enterprises |
| Collaboration not wanted | | 5 | | 6.25 | Based on total 80 enterprises |

Table 10-3-2 Requirements by Industry

| Kind of requirement | Strength of requirement | Fields | No. of enterprises | Ratio | Remarks |
|---------------------------------|-------------------------|--|--------------------|-------|---|
| OEM | 1. Very strong | Others | 10 | 13 | Based on total 76 enterprises expecting OEM |
| | 2. Strong | Machinery | 9 | 12 | |
| | 3. Normal | Steel products | 7 | 9 | |
| Consignee of foreign business | 1. Very strong | Measuring Instruments, Precision Machinery, Optics | 17 | 24 | Based on total 71 enterprises |
| | 2. Strong | Steel Products | 11 | 15 | |
| Technology transfer from abroad | 1. Very strong | Machinery | 9 | 20 | Based on total 45 enterprises |
| Joint ventures, Collaborations | 1. Very strong | Machinery | 14 | 15 | Based on total 93 enterprises |
| | 2. Strong | Others | 10 | 11 | |
| Product export | 1. Very strong | Machinery | 10 | 22 | Based on total 46 enterprises |
| Purchase of foreign products | 1. Very strong | Machinery | 5 | 26 | Based on total 29 enterprises |
| | 2. Strong | Measuring Instruments, Precision Machinery, Optics | 5 | 26 | |

| | | |
|------------------------------------|----------------------|----------------------|
| General Machinery Industry | 7 enterprises 41% | Total 10 enterprises |
| Automobile Parts Industry | 3 enterprises 27% | Total 8 enterprises |
| Electronics / Information Industry | 1 enterprise 13% | Total 7 enterprises |
| Environmental Protection Industry | 0 enterprise 0% | Total 8 enterprises |
| Other Industries | 9 enterprises 16% | Total 49 enterprises |

Answered

| |
|---|
| 4 |
| 0 |

Not answered

Among 10 model enterprises, 4 are wishing to have joint ventures or collaborations.

Fig. 10-3-2 Needs for Partnership

In an economic development zone, 9 enterprises have strong wish for the joint venture and collaborations or introduction of technology. They belong to industries such as real estate development, distribution control, high technologies, pharmaceuticals, chemical fertilizers and industrial products. Two among those that wish to have collaborations have the nanometer technology. Among those that wish to have collaborations, 3 enterprises are in the computer soft developments field.

With some concrete proposals, 6 enterprises wanted to enter into joint venture relations with Japanese enterprises. Some of them are so concrete in their proposals that they specify the contents of technology or nominate the partnership counterparts.

The general trend is that most enterprises have several wishes of joint ventures, collaborations, OEM, technology introduction and product exports. In the case of collaborations with the foreign enterprises, the survey shows that these enterprises are ready to adopt many different methods. This means that enterprises have very urgent desire for partnership and joint is concerned, most of those in machinery and metal industries had been established before 1990s and those in the fine chemical medicines / information processing / measuring instruments have mostly been established after 1991. As for the capital bases, more than two thirds of the enterprises are occupied by those with the capital of more than RMB 5 million. This is common with all industries. More than a half of enterprises are equipped with

e-mails and those with home pages are close to a half of the total enterprises. Moreover, enterprises with the sales teams who have their telephones connected with facsimiles account for more than a half of the total.

Table 10-3-3 Result of the Sum of the Figures Collected through an Inquiry

Number of the enterprise who answered : 80 enterprises
 Type of the enterprise : 28 state owned ; 29 private ; 12 collective ; 8 partnerships ; 3 unknown
 Whether the quality standard was obtained : 43 obtained ; 31 not obtained ; 6 unknown

| Unit: number of enterprises, except those who did not reply | Enterprises who replied | Enterprises established before 1990 | Enterprises established after 1991 | Enterprises with the capital of RMB5 million or more | Enterprises with the capital of less than RMB5 million | Enterprises who use electronic mail | Enterprises who have set up their own HPs | Enterprises whose telephone and facsimile are common | Enterprises whose export / import increased (including OEM) | Enterprises who desire to have business alliance with others | Enterprises who desire to receive technology transfer | Enterprises who desire merger / cooperation with others | Parts, raw materials and commodities they like to sell | Parts, raw materials and commodities they like to sell |
|---|-------------------------|-------------------------------------|------------------------------------|--|--|-------------------------------------|---|--|---|--|---|---|--|--|
| Foods / Agricultural and marine products | 4 | 3 | 1 | 3 | 1 | 3 | 2 | 1 | 4 | 3 | 1 | 3 | 1 | 0 |
| Wooden furniture | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 0 |
| Pulp / Paper | 1 | 0 | 1 | 0 | 1 | 0 | 0 | 1 | 1 | 2 | 0 | 0 | 0 | 1 |
| Textiles, Cloths | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 1 | 1 |
| Construction / Civil works | 4 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 3 | 2 | 0 | 5 | 0 | 0 |
| Chemical products | 4 | 0 | 4 | 2 | 2 | 3 | 1 | 1 | 4 | 4 | 5 | 4 | 3 | 1 |
| Petroleum / Oils and fats / Paints | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 2 | 4 | 4 | 2 | 2 |
| Pharmaceuticals / Cosmetics | 5 | 1 | 4 | 2 | 3 | 3 | 1 | 2 | 3 | 1 | 3 | 5 | 1 | 0 |
| Plastics, Rubber | 1 | 0 | 1 | 0 | 1 | 0 | 0 | 1 | 0 | 1 | 0 | 2 | 0 | 1 |
| Glass, Ceramics | 1 | 0 | 1 | 1 | 0 | 1 | 1 | 0 | 2 | 3 | 1 | 2 | 0 | 0 |
| Iron and steel products | 6 | 3 | 3 | 4 | 2 | 3 | 1 | 5 | 7 | 9 | 4 | 7 | 5 | 0 |
| Non-ferrous metals | 5 | 2 | 3 | 4 | 1 | 4 | 3 | 4 | 3 | 4 | 3 | 5 | 2 | 0 |
| Machinery | 22 | 14 | 6 | 14 | 8 | 13 | 11 | 14 | 9 | 17 | 9 | 14 | 10 | 5 |
| Electric home appliances | 1 | 0 | 1 | 0 | 1 | 1 | 1 | 0 | 1 | 0 | 0 | 1 | 2 | 1 |
| Industrial use electric / Electronic machinery | 4 | 2 | 2 | 3 | 1 | 2 | 2 | 1 | 1 | 2 | 1 | 3 | 2 | 0 |
| Information processing | 3 | 0 | 3 | 2 | 1 | 3 | 3 | 3 | 2 | 1 | 0 | 4 | 1 | 0 |
| Measuring instruments / Precision machinery / Optical apparatuses | 4 | 2 | 2 | 1 | 3 | 2 | 2 | 2 | 5 | 3 | 3 | 7 | 4 | 5 |
| Automobiles | 5 | 5 | 0 | 2 | 3 | 4 | 2 | 4 | 5 | 2 | 4 | 7 | 3 | 0 |
| Other transport machinery | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 3 | 1 | 1 | 2 | 0 |
| Transportation | 1 | 2 | 1 | 0 | 1 | 1 | 1 | 0 | 2 | 1 | 1 | 3 | 0 | 0 |
| Telecommunication | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 2 | 1 | 0 |
| Energy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 2 | 1 | 1 | 2 | 0 |
| Publishing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | 14 | 10 | 4 | 9 | 5 | 3 | 6 | 5 | 10 | 7 | 4 | 10 | 4 | 2 |

(2) Collection of the Needs / Seeds in Japan

1) Japan External Trade Organization (JETRO, <http://www.jetro.go.jp/>)

Japan External Trade Organization, an affiliated organization of the Ministry of Economy, Trade and Industry is a Japan's representative trade promotion organization, having 38 branch offices in Japan, and 80 of them in main overseas countries. JETRO has the following 2 pieces of information related to the pilot project of this time.

a) TTPP

This is an abbreviation of Trade Tie-up Promotion Program and is a system where Japanese and overseas enterprises can directly register or search / read the business inquiries through the Internet and can directly contact counterpart enterprises, who match their needs.

By making use of JETRO's network, it has come to be possible to search business partners from every corner of the world by the assistance of the database accumulated up to this date as well as other various kinds of information on the enterprises .

When you access TTPP, you can freely read about the overseas enterprises that wish to make business with Japanese enterprises by means of the business type-wise or nation-wise searches. In addition, if you register your business inquiries, they will be made public to the entire world through the Internet.

Since you can register / read diverse business inquiries / opportunities such as those in regard to commodity transactions, technology interchange, investment, services, etc., you may now find out prospective overseas partners easily and quickly by a personal computer in your office, which has so far been difficult, and, as a results, you can select better business partners. The main features of TTPP are as follows :

- Registration is simple and free of charge through the Internet.
- It has become easy to look for prospective partners by means of the high technology.
- You can easily contact the interested overseas enterprises.
- Automatic matchmaking
- Business categories on TTPP are the following 14 items :

Import / export of the commodities / parts, technology interchange, investment, business alliances (import / export collaborations, production consignments, the maintenance consignments), establishment of factories or offices, various services (translations, legal matters, accounting, consulting, advertisement, various kinds of investigation, other services)

b) JETRO Dalian Office

Under the joint auspices of JETRO Dalian Office, Dalian Municipality Branch of China International Trade Promotion Commission and Dalian Municipality Economic Commission, Dalian International Parts and Materials Fair is held every autumn. It has been held 7 times so far, and the number of the exhibiting enterprises / institutions is around 200 (Chinese government / institutions account for 20 %; Japanese enterprises 40 %; Chinese enterprises 40 %), the number of the participants is 30 - 40 thousand and the number of the business transactions reaches 1,500 - 2,000 on the recent records.

At the time of exhibiting, each enterprise, both Japanese or Chinese, are to clearly describe their own profiles, the items to be exhibited at the booths, the parts / materials required to be procured or sold etc., and attach the photographs and descriptions of the parts / materials. Based on these pieces of information, participants can conduct business discussions with the targeted companies.

2) Japan Techno Mart Foundation (JTM, <http://www.jtm.or.jp/>)

Japan Techno Mart Foundation is promoting the technology transaction business (membership system) and patent circulation promotion business (the consignment business of the Japanese Patent Agency, by open public system), in order to promote the technology interchange, technology transfer, etc. among the enterprises or areas, This Foundation is providing information on patent / know-how / technology / business, registered at the Techno Mart through the on-line database or events, and is proceeding with the technology / business transactions smoothly.

a) Data Base

The on-line database services which JTM holds are as follows.

Techno Mart III Database Service (membership system)

- In the original database of Techno Mart for technology / business information, approximately 10,000 pieces of "Information on the technology

transaction” are registered and any member can read them. In addition, a member can also use on internet, free of charge, the “EaSY_PaT” which covers the information on the intellectual property right of all patents / utility models, and “Search for the Full Text of the Official Reports on the Patents” by which recent published reports on the patents can be searched. Moreover, apart from these, a member can make use of “G-Search”, “G-Search MMDB”, “PATRIS” through the Gateway Service.

- By registering what you want to sell or buy on the “Information on the technology transaction”, you can effectively send your signals.
- The membership can be obtained by paying the entry fee and annual membership fee. Companies engaged in intermediary business are “general supporting members” and approximately 150 SMEs are “general members”.

Patent Circulation Database

- Several tens of thousands pieces of information on the patent possessed by the enterprises / universities / research institutes which can be licensed are registered, and through the Internet, anybody can make use of them free of charge.
- Information on the needs / seeds of the enterprises can be registered / searched.
- Anyone can make use of him or her easily through the Internet.

b) Business negotiation meetings

JTM is holding every year several tens of business negotiation meetings inside and outside of Japan. In Japan, it holds the Techno Mart Business Negotiation Meeting in 20 main cities, Patent Circulation Fair in 8 main big cities, and overseas, Japan-Korea Techno Mart in Korea, Japan-China Techno Mart in China, once a year each under the joint sponsorship with the respective host country.

Last year, Japan-China Techno Mart was held in October at Tianjin Municipality under the joint auspices of Northern Technology Exchange Market and Japan Techno Mart. The participants from Japan were 14 enterprises, who exhibited 60 technology proposals, and during the session of 4 days, brisk business discussions were conducted with many Chinese participants. So far 8 business negotiation meetings were held during the last 5

years and several transactions were successfully finalized up to this date. In recent years, the Japan-China Techno Mart has been held in Shanghai and Tianjin every year alternately.

3) Kanagawa High Technology Support Foundation (KTF, <http://www.ktf.or.jp/>)

KTF occupies the core place in the Kanagawa Science Park, who, as the specialized organization for the technical transfer, provides information which meets the actual needs to the member enterprises in Kanagawa prefecture, to promotes the technical transfer.

Furthermore, in the “High Grade Measuring Center”, KTF is providing the services equivalent to those of the research and development division or the quality control division of an enterprise, so as to solve the technical problems or troubles occurring in the course of development or manufacture of the products or to confirm the quality of the materials. The main services rendered by KTF are as follows :

Technical market services

- Consigned PR : To provide PR on behalf of the enterprise who wants to sell technologies / product
To provide PR of the technologies or products on the national level
To hold the explanatory / business negotiation meetings
To render the intermediary services to the user
- To provide information : To provide necessary information on technology to the enterprises that need it
To provide information on patent / technology
To hold various events

Testing and measuring services

10.3.4 Partnership Activity

The total work process of the partnership activity is shown in Fig. 10-3-3 and the work to be conducted at each stage is described below.

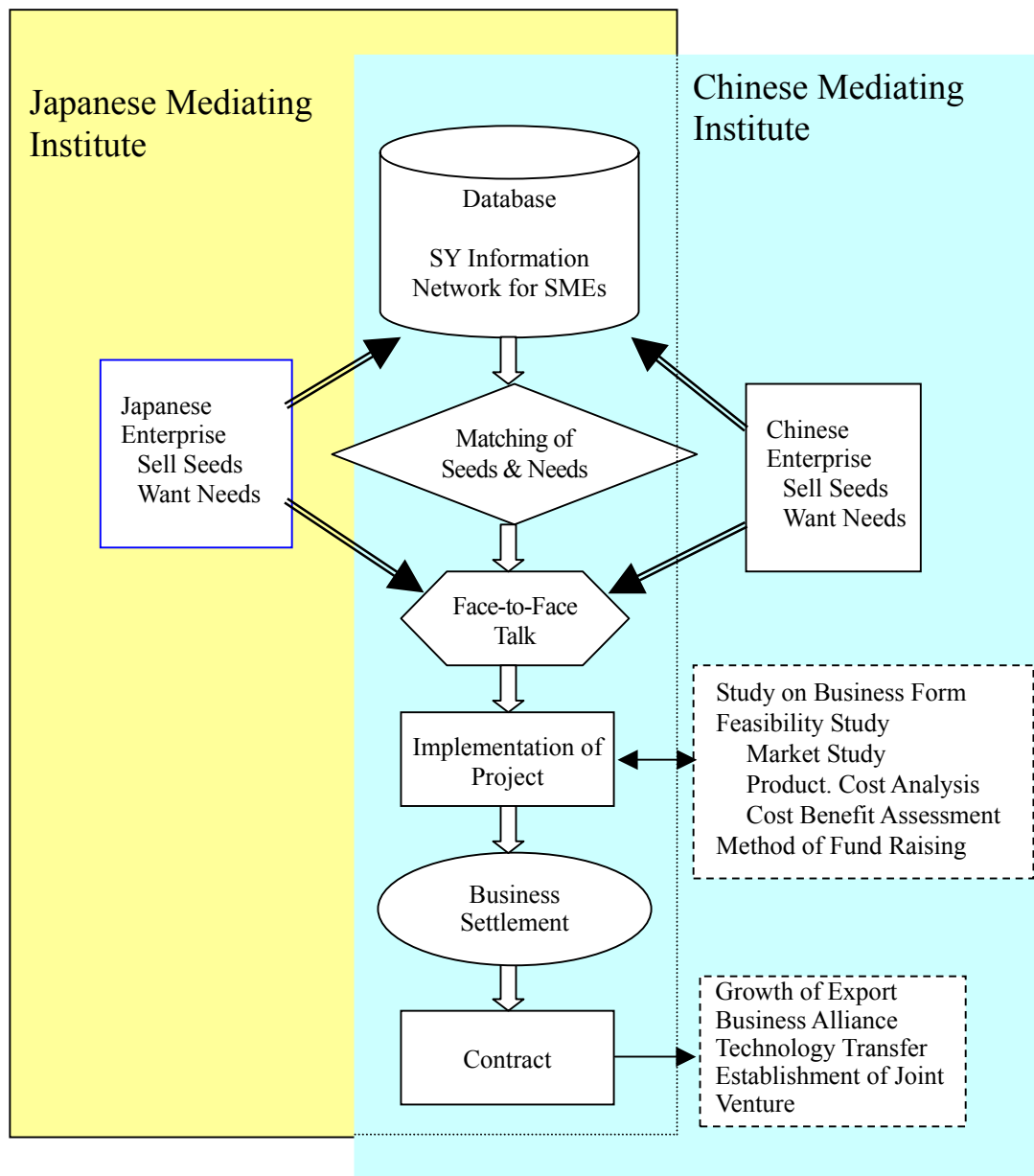


Fig. 10-3-3 Work Process of the Partnership

(1) Database

The database of Shenyang Municipality SME Information Network, constructed this time, includes many pieces of information in relation to the partnership. Anybody can view the details, free of charge, by accessing the home page of Shenyang Municipality SME Information Network from the terminal personal computers of each enterprise.

(2) Information on the Needs / Seeds of the Enterprises

1) Chinese side

In order to grasp the information on the needs and seeds in the hands of SMEs in Shenyang Municipality, an inquiry was made to the Shenyang Municipality SMEs. Out of 100 enterprises who answered it, 20 - 30 enterprises reported the information on the needs / seeds. The result of the inquiry is published on the database of the Shenyang Municipality SME Information Center, which, in consideration of the convenience of Japanese enterprises, is provided in Japanese language. It is anticipated that these pieces of information will be further increased in number, when the tendency towards registering their own information to the database of Shenyang Municipality SMEs is intensified.

2) Japanese side

The following two pieces of information on the needs and seeds of Japanese side are published on the database.

More than 100 technology proposals of Japan Techno Mart Foundation

Approximately 80 pieces of information exhibited in the Parts and Materials Fair of JETRO Dalian Office

As for the details, please refer to the database of Shenyang Municipality SME Information Center.

(3) Intermediary Organization

1) Chinese side

Shenyang Municipality SME Service Center was established in December 2000 and this Center has started since last Spring to work as the intermediary organization handling the partnership matters. The consulting firms belonging to Shenyang Municipality Economic and Trade Commission group serve concurrently the partnership matters and the number of the staff members is less than 10, who are jointly working with the survey mission. In the future, it is expected to play an important role as the intermediary organization for the overseas partnership matters.

2) Japanese side

a) Japan Techno Mart Foundation (JTM)

JTM is the biggest technology transfer organization in Japan which belongs to Ministry of Economy and Industry group and has longer than 15 years of experience in this field. As for the relation to China, through the negotiation meetings in Japan-China Techno Mart held in Shanghai or Tianjin, they have several years' experiences. The relations with the Japanese enterprises are also close.

b) Japan-China Northeastern Development Association

This office represents in Japan 3 provinces of East-North of China and is located in the office of Japan-China Association. As the business plan of the next year, Japan-China East-North Association intends to follow up the activity of this survey mission. For the executive members of this association, such as the directors, the management executives from the leading Japanese companies take seats.

c) Enterprises

Leading venture capital enterprises in Japan make investment in China as well and so from this view, they have keen interest in the enterprises in Shenyang Municipality. In the future, the joint work with Shenyang Municipality SME Service Center could be possible.

The Chinese group consulting enterprises whose major members consist of the alumni of Dalian Science Technology University are also conducting the intermediary business mainly for IT industry between Japan and China. At present, the enterprises of Dalian are their targets but, in the future, the enterprise of Shenyang Municipality will be their targets as well. In such occasion, there will be a high possibility for the joint work with Shenyang Municipality SME Service Center.

d) Japanese enterprises stationed in Beijing (Nomura CITIC)

Japanese venture capital enterprises stationed in Beijing cover entire China for the intermediary business for the joint ventures or M & A between Japanese and Chinese enterprises. In the future, in case such organizations aim at the enterprises of Shenyang Municipality, there will be a high possibility for the joint work with Shenyang Municipality SME Service Center.

(4) Business Matching

In regard to the matters of the needs and seeds, there is a possibility that the optimum combination could be found out by comparing and examining both matters. Such a trial is called the business matching of the needs and seeds. Although the business matching can be made on the database, it is made in various occasions like the business negotiation meetings, efforts of intermediary organization, etc.

1) Database

As for the needs and seeds matters registered on the database, there is a possibility that the optimum combination could be found out by comparing and examining both matters. In the case of the bigger database, the business matching is made by the computer independently and the results can be informed to the needs side and seeds side respectively. However, the database of Shenyang Municipality SMEs Information Center is not equipped with such function.

2) Exhibition

There are such fairs as Parts and Materials Fair held by JETRO every year in Dalian or Beijing. Usually for 100 - 300 exhibitors, the number of the visitors to the fair reaches 1,000 to several tens of thousands, but there is a big advantage to be able to receive explanations for the commodity or technology on the spot. The information on JETRO Dalian Parts and Materials Fair is published on the database of the Information Center.

3) Intermediary organizations

Through the exchange of information held independently by such organizations as Shenyang Municipality SME Service Center or Japan Techno Mart etc., the business matching could be produced. Such intermediary organizations hold so much information concerning their own technology that the probability for the successful business matching becomes higher to that extent.

It might be the best way for the enterprises to bring their needs and / or seeds to such intermediary organizations in order to lead the transactions to success.

4) Japan-China Techno Mart Business Negotiation Meeting

In the business negotiation meetings held in Shanghai or Tianjin every year, more than 10 Japanese enterprises bring in their technologies which can be transferred and conduct negotiations with local enterprises in Shanghai or Tianjin. As several

transfers have so far been successfully agreed upon at every business negotiation meeting, it can be said that this measure is an effective way of the technical transfer.

5) Investment and financing missions visiting Japan

In respect of the investment inducing missions promoted by the governments of Liaoning and Shenyang, there are such examples for the first half of 2001 as listed below :

Mission of the Liaoning Provincial Government Visiting Japan

Mission of Inducing Investment in the Area of Heavy Machinery (Shenyang Municipality)

Mission of Inducing Investment in the Area of IT (Shenyang Municipality)

Mission of Inducing Investment in the Area of Automobile Parts (Shenyang Municipality)

Since the visiting purposes of these investment inducing missions are very clear, the preparation in advance is made thoroughly, the members are the government officials and the executives of the enterprises, and so on, Japanese side makes positive responses in receiving them. For this reason, the significant effects can be expected, such as the conclusion of an agreement for a big project.

6) Human relations

The so-called human relations are also very effective means. If the technical experts exchange opinions closely between Japan and China, the conclusion of the agreements comes very fast, as they can fully understand each other. Moreover, if the management executives talk directly to each other, the agreements could be concluded soonest, as they have the decision power respectively. The recommendations or introductions by the high-ranking people in the political or business circle often provide effective opportunities.

7) Home Page

It is often heard recently that, by publishing the explanation of their own products or technologies on their own home pages, business inquiries came from unexpected clients and the contracts were successfully concluded. While it is now quite common to provide information on their own companies by utilizing the Internet, it might produce an unexpected effect by providing their own information.

(5) Face-to-Face Negotiation

It is called a face-to-face negotiation where both Japanese and Chinese sides sit together at a same table and conduct individual negotiation. In such a negotiation, it is very effective to exchange opinions while seeing each other's face. Such individual negotiations take place any time. When the business negotiation is advanced further, the factory visit or mutual visit to each other's office takes place.

In such an occasion, an intermediary organization arranges a business negotiation and by intermediating between the both sides, can assist the negotiation from a neutral position. The exchange of the information by telephone, facsimile, electronic mail, etc. is conducted frequently as a matter of course.

(6) To examine the Matter Concretely and Proceed the Talk for Final Agreement

1) The examination of the formula of alliance

After starting the business negotiation and when it reaches a little advanced stage, it is necessary to examine the formula of the alliance. The formulas of alliance can be broadly divided into the followings :

Expansion of the export and import

Business alliance

Technology transfer

Establishment of the joint venture company

Although it will be different which formula is adopted, depending upon the actual situation at that time, the factors to decide it can be considered as follow :

Where is the market ? (China, Japan, Asia, the entire world, etc.) Is it large enough ?

Amount of the fund required

How easy is the technical transfer ?

Are there enough personnel adaptable ?

Prospect of the future profit

Are incentives available ?

Objective of the project

2) Feasibility study (FS)

A feasibility study will be made, conducting market research for the commodity, analysis of the production cost, analysis of the benefits / expenses, to finally evaluate whether this project is viable or not.

3) Examination of the fund raising

At the stage where the amount of the money for the equipment and operation is fixed, how to raise the fund required is examined. Combination of the long / short-term fund, such as own fund, bank loan, the issue of the share certificates or bonds, application for the governmental support fund, etc. will also be examined.

(7) Conclusion of the Negotiation / Contract

Both Japanese and Chinese sides exchange the contract and the project will be implemented.

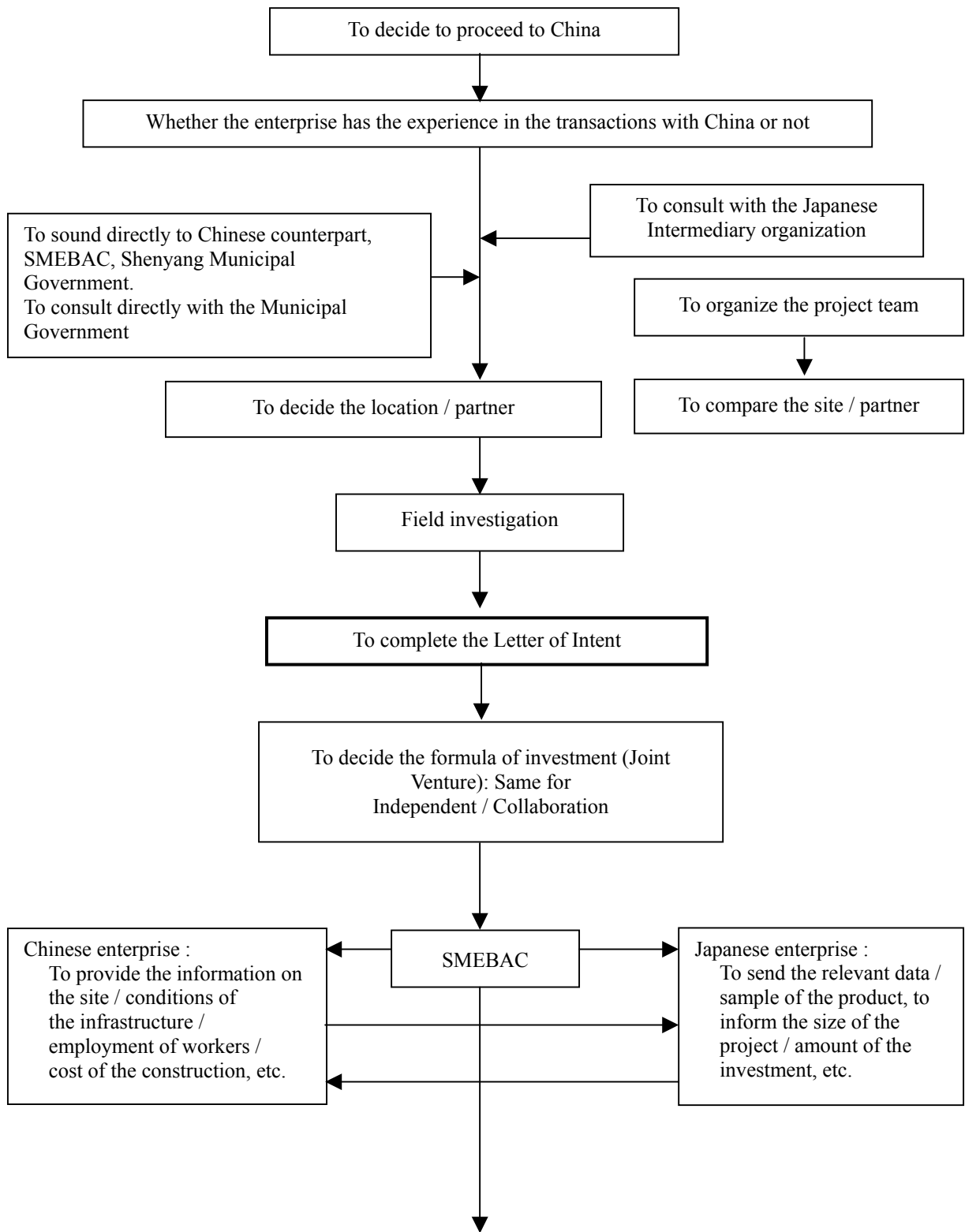
10.3.5 A Case Study of a Partnership

(1) Process of Establishing a Joint Venture Enterprise by a Japanese Enterprise

Fig. 10-3-4 shows the process of establishing a joint venture enterprise, when a Japanese enterprise proceeds to China.

It can be considered that the process for an enterprise to decide to proceed to China and finally start the business is broadly divided into the following 3 patterns :

The first step is from the decision to proceed to China up to the preparation of a letter of intent. After the decision to proceed to China has been taken within the enterprise, the possibility of realization is sounded through the contacts with the prospective business counterparts in China, Shenyang Municipality SME Service Center, or Shenyang Municipal Government, in consultation with the Japanese intermediary organization. After deciding on the area to proceed to and the prospective partner, the field investigation is made and the letter of intent is prepared / signed. During this period, a project team is organized in the office and the comparison among and examination of the prospective areas to proceed to and partners are conducted.



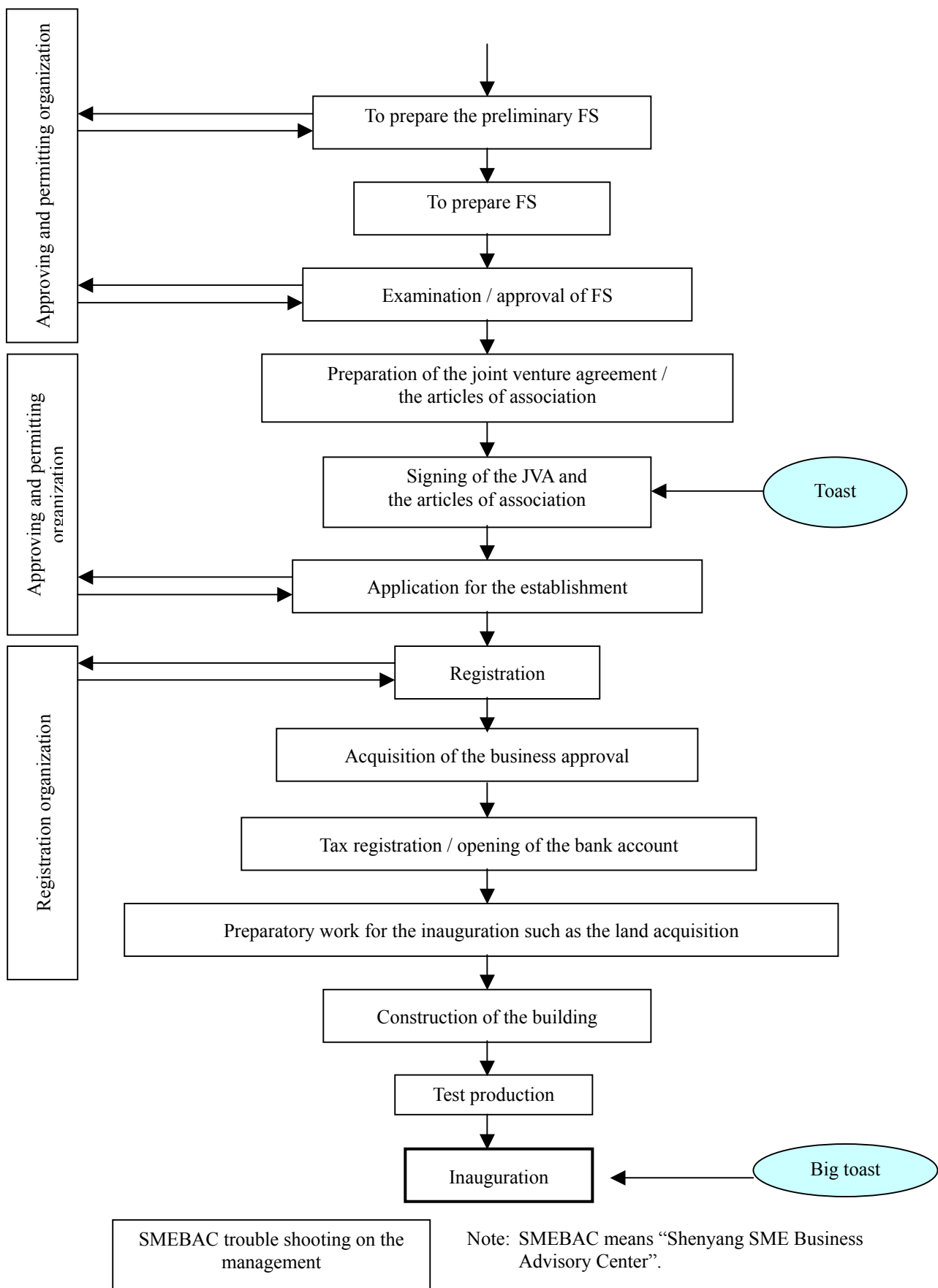


Fig. 10-3-4 Process of Establishing a Joint Venture Company of a Japanese Enterprise in China

The second step is the period between the signing of the letter of intent and the conclusion of the joint venture agreement. After deciding on the formula of investment, the enterprise of the Chinese side will provide the information on the construction site, conditions of the infrastructure, employment of the workers, cost of the construction, etc. In the meantime, the enterprise of Japanese side will inform the people concerned of the sample, relevant data, size of the project and the approximately calculated amount of the investment, etc. SMEBAC will intervene between the Japanese and Chinese enterprises. Based on these pieces of information, a feasibility study is conducted, and if the result of the feasibility study is favorable, it is reported to the Chinese authorities from whom the permission and the approval should be obtained, after which the enterprises will receive an internal preliminary approval. Moreover, the joint venture agreement / articles of the association of the joint venture company will be prepared and signed.

The third step is the period up to the start of operation. The entire process includes the application for the establishment of the joint venture enterprise, registration, acquisition of the approval for the business, tax registration, opening of the bank account, acquisition of the land, construction of the buildings, test production, then start of the operation.

(2) OJT in Intermediated Projects of Partnership

The proposals of a partnership which have been taken up during the implementing period of this pilot project are as follows. Besides, the OJT has been conducted in the process of the business negotiations, by letting 2 - 3 consultants from Shenyang Municipality SME Service Center act together with the members of the survey mission all the time.

1) Status of the progress of the intermediated projects of partnership

a) Socks and stockings knitting machine (Japanese knitting machine maker)

The machine maker in Shenyang Municipality ⇒ Exchange of the letter of intent ⇒ Decision to discontinue the project by the management board (6/5)

b) Far infrared drying machine (Japanese drying machine maker)

Shenyang Municipality environmental machinery maker ⇒ Exchange of the letter of

Internet (July 2001) ⇒ The maker of environmental machinery came to visit the factory visit and conduct negotiation. (early August 2001) ⇒ The Japanese drying machine maker visited Shenyang Municipality (late August 2001) ⇒ F/S started

c) Large sized pump (Japanese pump maker)

The pump maker in Shenyang Municipality ⇒ The proposal of Shenyang Municipality pump maker received (March 2001) ⇒ The chairman of the pump maker in Shenyang Municipality visited the Japanese pump maker. ⇒ The management board of the Japanese pump maker decided to examine the possibility of proceeding to China (May 2001) ⇒ The Japanese pump maker moved toward the business alliance with the pump maker in Shenyang Municipality.

d) Biodegradable plastics (Biodegradable technology development maker in Shenyang Municipality)

Data / sample received (secrecy agreement) ⇒ Under negotiation with 2 Japanese enterprises (June 2001) ⇒ Letter of intent proposed from the Chinese side (August 2001)

e) Cement manufacturing machine (Cement machinery manufacturer in Shenyang Municipality)

The Japanese consultant presented the proposal to the cement machinery manufacturer in Shenyang Municipality ⇒ Q & A ⇒ The draft of the letter of intent for the joint venture received from the cement machinery maker in Shenyang Municipality (July 2001)

2) Program for the future business negotiations with Japanese enterprises

a) Vacuum pump (Pump maker in Shenyang Municipality : SC Company)

The inquiry sent to the Japanese vacuum engineering maker ⇒ Under examination

b) Biodegradable paper container (biodegradable food container maker in Shenyang Municipality : SD Company)

SD Company is a venture enterprise in which the political fund from Shenyang Municipal Government was invested. JV with Japanese enterprise proposed (August)

- c) Waste mud drying machine (drying machine maker in Shenyang Municipality: SE Company)

SE Company (one of the 10 model enterprises) asked for an opportunity of the business alliance with a Japanese drying machine maker (August 2001) ⇒ Inquiry sent to Japanese drying machine makers

- d) Spiral copper tube (copper tube maker in Shenyang Municipality: SF Company)

SF Company is an influential enterprise that has replied the inquiry for interest in the partnership implemented by the survey mission. This company is a former state owned enterprise, privatized 3 years ago, and is wishing to have a technological alliance with a Japanese enterprise for the high efficiency spiral copper tube for the air conditioner.

- e) Copper foil (Copper foil maker in Shenyang Municipality: SG Company)

SG Company wishes to introduce the technology to make the thin copper foil of which the thickness is 0.012 mm. It can respond to a proposal of either the technology transfer or the joint venture.

- f) Bolt and nut (Bolt and nut maker in Shenyang Municipality : SH Company)

SH Company is a former state owned enterprise that has a state class quality inspection equipment. While this company has a long experience in manufacturing bolts and nuts, it wishes to have an alliance with a Japanese manufacturer, aiming at newly supplying the products to foreign-owned automobile manufacturers.

- g) Traffic control system for big cities (Signal maker in Shenyang Municipality : SI Company)

As the signaling equipment maker, SI Company is a leading former state owned enterprise. In anticipation of the future traffic jam in the big cities, it is developing a traffic control system, and wishes to have an alliance with a Japanese enterprise.

- h) Process control system (Automation instrument maker in Shenyang Municipality: SJ Company)

Having noted that foreign companies have occupied the major share in the field of the control instruments for the plants in China, SJ Company is developing

the system in order to replace them by Chinese-make. For this reason, this company wishes to have an alliance with a Japanese automation instrument manufacturing enterprise.

- i) 12 other proposals (From the enterprises located in the Shenyang Economy and Technology Development Zone)
- 3) Actual state of progress of the major intermediated proposals
- a) Socks and stockings knitting machine (Japanese knitting machine maker: A Company)

[Profile of the Japanese enterprise]

A company, listed on the Second Section of the Tokyo Security Exchange, has 50 years of production experience as the top enterprise in the socks and stockings knitting machine manufacturing. Especially in these days, the competition in the sale of knitting machines has been intensified in Japan where makers are also desperately competing in cutting cost down, although they are still struggling, as the market share has been deprived by cheap Italian-make knitting machines. As A Company reduced the production of the knitting machines due to these circumstances, the after sale service of the knitting machine sold in the past has finally come to be their main business. In order to overcome such situation, they have started the negotiation for the joint venture or collaboration with a machine maker in Shenyang Municipality, envisaging the possible removal of their factories to China.

[Knitting machine market in China]

The major market in China for the knitting machines mainly exists in the vicinity of Shanghai or the district further to the south, while in the Northeastern district there are only very few enterprises. As a result, several former state owned socks and stockings knitting machine manufacturers operate near Shanghai and there further exist only several more in Zhejiang province. Therefore, the industry is small in size, having less than 10 manufacturers in whole China.

[Machine maker in Shenyang Municipality]

The machine manufacturers in Shenyang Municipality are excellent enterprises, belonging to large financial groups, having experiences in collaborating with European and American enterprises and keeping advantageous conditions in the

financing as well as marketing areas. However, they have no experience or know-how so far at all in the manufacture of the socks and stockings knitting machines.

[History of the business negotiations]

In the beginning of June, the president of A Company came to Shenyang Municipality to conduct direct negotiation with the machine manufacturer in Shenyang Municipality. In the negotiation between the Japanese and Chinese companies on that day, the agreement to exchange the letter of intent was reached, in which the 3 party joint venture enterprise was to be established to manufacture the socks and stockings knitting machines at the factory of the enterprise in Shanghai and let the enterprise in Shenyang Municipality cooperate in the financing / personnel areas. Chinese side later decided to relinquish this negotiation as the results of the discussion in the management board meeting of the enterprise.

The negotiation was not materialized presumably because the enterprise in Shenyang Municipality had no experience in the manufacture of the knitting machines, the market is located far in the south of China, the procurement of associated parts is not easy in Shenyang Municipality, the prospect for the future growth is not bright, and so forth. It can be said that there were so many difficult conditions.

b) Far infrared drying machine (Japanese drying machine maker : B Company)

[Profile of the Japanese enterprise]

B Company is listed on the Second Section of the Tokyo Security Exchange. Several years ago, it developed the drying machine using far infrared. In comparison with the existing machines, this machine had the drying speed of 10 - 30 times faster, reducing the drying time to the same extent. B Company has been endeavoring to expand the sales in Japan, but, at the same time, is considering to make the technology transfer to a Chinese enterprise or to promote the sales in China by setting up a joint venture company

[Market for the far infrared drying machines in China]

Since the far infrared drying machine has not yet been developed in China, it can be called an entirely new product. The market is expected to be very large, because the applicable field of this far infrared drying machine is so extensive,

covering the heat coating of the surface painting of the machines and the automobiles, the drying of the printed circuit board, drying of the screen printing, drying of the foods, sintering / drying of the raw materials for chemical products, sterilization of the seeds / soil, warming therapy / rehabilitation, etc.

[Drying machine manufacturer in Shenyang Municipality]

The drying machine manufacturer in Shenyang Municipality is a venture enterprise, established 3 years ago by succeeding the factory equipment and the personnel of a former state owned enterprise. The management comprises an ex-official of the municipality government, an ex-professor of the Northeastern University, etc, and adopts the modern and democratic management system. As for the marketing, they succeeded the sales network from the state owned enterprise, which covers the entire China. This company has been paying attention to the growth potentiality of the drying machine using the far infrared ray and has been proceeding with the research of it.

[History of the business negotiation]

In the beginning of June, the far infrared drying machine of B Company was introduced by the survey mission to the drying machine maker in Shenyang Municipality, who showed much interest in it. As a result of the integral examination, they reached the conclusion that the far infrared drying machine of B company is the most advanced drying machine in China. Therefore, they agreed to sign the letter of intent in order to promote the alliance with B Company immediately. In July, the letter of intent was signed by the two companies and in August, it is scheduled for the drying machine manufacturer of Shenyang Municipality to visit Japan, inspect the factory of B Company and proceed with the concrete talk for the alliance.

The schedule thereafter is that the FS will be started from September and in the beginning of 2002, the formal contract is expected to be signed.

- c) Biodegradable plastics (Biodegradable technology development maker : SA Company)

[Biodegradable technology development maker in Shenyang Municipality : SA Company]

SA company is the biodegradable technology development manufacturer in Shenyang Municipality and a venture enterprise as well. SA Company started the development of the biodegradable starch container by using starch as the main material 5 years ago and finally succeeded in delivering the completed products to the market this year. The president of SA Company is the ex-professor and the high-class engineer. SA Company who has been collaborating with a German biodegradable container manufacturer, holds the most advanced technology of its own in this field. It is one of 10 model companies.

[Biodegradable plastics market in China]

In China, from August 2000, a regulation was instituted and immediately promulgated, which prohibits the use of unbiodegradable plastic foam products, thin film or tableware. From April 2001, the more strict restriction for the use was again enacted. Due to these circumstances, the existing plastics processing makers are forced to change the materials and the biodegradable starch container of SA Company is draws attention.

[Japanese plastics processing manufacturer]

In Japan, the shift to the biodegradable plastics is aimed to be made from 2005. The biodegradable starch container of SA Company was introduced by the survey mission to the Japanese plastics processing manufacturer who paid attention to it and started the examination of it at the same time. In order to judge if it can clear the Japanese standard for the use, Japanese side requested SA Company to send a sample.

[History of the business negotiation]

As 2 Japanese plastics processing manufacturers found some defects in the initial samples, they requested to provide the improved samples. For the request of the second samples, SA Company required them to sign the letter of intent and presented the price.

- d) Cement manufacturing equipment (Cement manufacturing equipment maker in Shenyang Municipality : SB Company)

[Cement manufacturing equipment maker in Shenyang Municipality]

SB Company, a manufacturer of the small sized cement manufacturing equipment, was privatized 3 years ago. SB Company, specialized in the cement manufacturing equipment of the class with a capacity of 5 - 20 tons per day, is making efforts to sell an improved equipment which aims at increasing the capacity of the existing extremely small equipment.

In 2001, as the performance of the company has turned to be favorable, they planned as the mid term strategy, to newly participate in the manufacture of the bag filter in order to remove smoke soot, for which, they are seeking the introduction of the manufacturing technology from a Japanese enterprise.

[The market of the bag filter in China]

The market of the bag filter in China is in the increasing trend. While the Chinese-make bag filter has such drawbacks as rather short useful life, the imported bag filters are expensive.

[History of the business negotiation]

As the survey mission introduced to SB Company a Japanese technical consultant (an individual), the negotiation between SB Company and the consultant was started. The Japanese technical consultant submitted the proposal to SB Company, and after that the Q & A process has been continuing. Toward the end of July, the proposal for the project of the joint venture was received from SB Company. However, since the Japanese technical consultant would not disclose the technology till the time of contracting, SB Company faces difficulty in the selection of the technology to be introduced.

10.3.6 Feasibility Study

In the intermediary businesses, the feasibility study is the most important means for the evaluation of projects, and it was technically transferred to Shenyang Municipality SME Service Center. The summarized contents of the FS are mentioned below:

(1) Summary

At the time when a partnership projects between China and Japan is implemented, it is necessary to perform the feasibility study (FS) to thoroughly examine the conditions that make the project successful. In the FS, the following items will be examined and after finally confirming that there is enough possibility for the success, the project is to be performed.

The methods of the analysis for the FS are diverse in accordance with the project to be studied. In the COMFAR of the UNIDO, it is made so as to be able to select from the industry, mining, agriculture, infrastructure and tourism. In addition, for the analysis, 3 step programs such as the simple opportunity analysis and business planner are prepared, which can be effective means as well to judge whether the short term project that the enterprise is considering to implement this time can be carried out profitably or not.

1) Background and objective of the project

At the time of starting the FS, it is important to make the following 4 points clear and it is also necessary to thoroughly grasp what is the background surrounding the relevant project. - What is the target of the relevant project ?

- Are there any alternative project ?
- What kind of means for the survey / analysis is adopted ?
- What are the benefits ?

2) The forecast of the demand

The demand for 5 - 10 years for the relevant commodity is to be forecasted. The factors to be taken into consideration at the time of forecasting the demand are: how will the industry to which the relevant commodity belongs develop in the future in that industry ? ; how much share will the relevant commodity occupy ? ; what will be the main factor which may affect the forecast of the demand and how will it change ? ; to what extent will the relevant commodity be competitive ? and so on. After examining these factors individually, it should be presumed how these factors affect the demand of the relevant commodity, and finally the quantity of the demand will be forecasted.

3) Business plan

The outline of how to implement the relevant project will be determined. That is to say, the required production facilities and equipment of the factory, scale of the

production, kind of the commodity, method of the marketing, requirement for the engineers and man power, the way of procuring the raw materials, timing for the starting up and setting up of the production, etc. will be determined.

4) Estimation of the cost

After aggregating the cost of the production facilities, cost of wages, cost of procuring the raw materials, etc. the production cost of the commodity is finally calculated. At this time, it is necessary to calculate the future cost, discounting it to show the present cost. It is necessary as well to presume the production cost for 5 - 10 years to come.

5) Analysis of the benefits / expenditures

By forecasting the various expenditures and profits over 5 - 10 years to come, the income statement will be compiled. At the same time, in order to grasp the inflow and outflow of the money, the cash flow will be forecasted. As a result, it will be known at which time after starting the production, the operation will turn from red to black, how much money is required at what time and so forth.

6) Evaluation

While making the sensibility analysis to see how the expenditures or the profits will be changed by shifting little by little the prices of the commodity to be delivered, labor costs, rate of operation, demand quantity and so on, the feasibility of the project for the implementation is assessed. If the conclusion is obtained that the implementation is feasible, the project proceeds to the next step of the implementation planning.

If, at this stage, the conclusion is obtained that the project cannot be implemented, it should be relinquished.

(2) Items to be Surveyed in the FS

1) Political / economic / social condition

2) Economic condition

a) GNP and GNP per capita

b) Growth rate of the economy

c) International balance of payment and the external debts

- d) Structure of the industry and the fiscal revenue and expenditure
 - e) Prospect of the economy
- 3) Social condition
- a) Racial structure
 - b) Language
 - c) Religion
 - d) Level of the education
 - e) History
- 4) Policy / system of the government
- a) Policy for the foreign investment restrictions
 - b) Policy for the incentives for the foreign investment
 - c) Procedures for entering into the local market
 - d) Economic and industrial policies
 - e) Policy for the international trade
 - Import restrictions and the system of customs duties and tariffs
 - Export promotion policy (export processing zone, free trade zone, free trade)
 - f) Regional development policy
 - g) Laws / regulations in relation to the business activities
 - Company act, commercial code, law for the industrial property right, labor law, minimum wage, employment conditions, safety code, industrial standards, various taxation systems, securities transaction law
 - Relation with Japan: tax convention, economic cooperation, bilateral agreement for the trade and tariff, WTO membership
- 5) Market
- a) Size of the market and its trend
 - b) Life cycle of the products
 - c) Growth potential of the market
 - d) Characteristics of the market
 - Japanese enterprises and their products, the assessment to their own brand

Consumer activity, social and religious practice

- e) Routes of the distribution
Distributors / routes of distribution, e-commerce
 - f) Legal regulations concerning the marketing
Anti-trust law, price control, policy for the imported goods, the systems for the trade mark / patent, the guidance of the industries by the government
 - g) Status of the competition
Market share of the related products, status of the competitors
 - h) Status of the advertisement / publicity / means of the sales promotion
 - i) Possibility of utilizing the preferential tariff rates, etc.
- 6) Various conditions for the production
- a) Human resources
State of the employment, level of the wages, labor productivity, labor stability, quality of the middle management and degree of difficulty in the employment
 - b) Labor management
Contents of the labor law, characters of the labor unions, labor practice, difference from Japan in the labor management, state of the occurrence of labor strikes, social welfare, facilities and systems for the education and training
 - c) Procurement of the equipment, raw materials, parts
Availability of the equipment, machinery for maintaining the factory, raw materials and parts (price, quantity, quality, delivery period, ability of the stable supply), status of the maturity of the related subcontracting industries
 - d) Infrastructures
Land, state of the transportation, availability of water and energy, state of maintenance of the telecommunications equipment
 - e) Pollution control and state the pollutions generated
- 7) Partners of the joint venture
- a) Human conditions of the partner
 - b) Fund raising capability
Assets, income, creditworthiness
 - c) Influence in the political, governmental and business circles

Management policies, management capacity, personality, quality of the employees, especially of the director class executives, business performance (sales, profit and loss, financing), technological strength / sales capabilities / fund raising capabilities / existing facilities, relation between the management and labor

8) Fund raising / financial systems

a) Possibility to raise fund locally

Amount of the fund to be raised, stability of the fund raising, cost, mortgage, guarantee, availability of the institutional financing, degree of maturity of the capital market, degree of accumulation of the private capital

b) Possibility of introducing foreign funds

c) Information on the financial risks

Information on the foreign exchange market, inflation, fluctuation of the foreign exchange rates

9) Others

a) Procedures of establishing a company

b) Matters concerning the persons to be dispatched from the head office
Acquisition of the visas, living environment, education of the children

c) Sentiment toward Japan

d) Climate and temperatures

(3) Financial and Profitability Analysis

1) Calculation of the investment amount

There seems to be no need of explanation on the costs of the machinery and facilities, consumption goods of low prices, interior redesigning, and enlargement of buildings. The costs of business initiation include the followings. The period of business initiation should be determined at this point of time.

Personnel expenses (of those recruited during the initiation period)

Training expenses (expenses for overseas and local training)

Rental fees of the preparation office

Communication expenses (cost of telephone and facsimile)

Accommodation expenses of the Japanese (Arguments on the number of people whose expenses are to be covered and choice of hotels will arise.)

Transportation expenses

Entertainment expenses

Procedural expenses

Expenses of the first board of directors' meeting

Other contingencies

2) Payment of capital

To fix the number of times of paying capital in

3) Personnel expenses

To calculate the monthly and annual amount of the total wages. Integral judgment and adjustment is required for determining the rate of wage increase, considering both of the inflation and improvement in productivity.

It is essential to establish the levels and systems of wages fair enough to recruit excellent people.

The introduction of an efficiency wage system and fair assessment system must be implemented not only by the opinion of the Japanese side but also by paying respect to the views of the Chinese side.

4) Education and Training Expenses

To prepare and estimate the cost of the education and training plan for the general employees, high-level officials and engineers.

To determine how much and by whom (the joint venture company or the Japanese enterprise) the expenses of the overseas training (in Japan or other areas), such as travel expenses, daily allowances, accommodation fees, food expenses, etc. should be borne.

Local training: Engineers from Japan travel to China to implement training.

There are cases where expenses are calculated as follows :

If within the range of the technological guidance provided by the Japanese side, all the expenses are to be borne by the Japanese side. If the training involving travel

from Japan is requested by the joint venture, all the expenses are to be borne by the joint venture.

5) Borrowing and repayment plan of the principal and interest

Borrowings in foreign currencies and in RMB are envisaged. How the mortgages of what kind are to be offered should be decided. By making calculations based on the assumed interest rate, the repayment schedule is to be prepared.

6) Marketing expenses

The marketing expenses such as sales promotion expenses, packaging costs, etc. are to be included in this item.

7) Transportation expenses

The transportation expenses of raw materials and products.

8) Business trip expenses

Business trips of Japanese returning to Japan:

Number of people × Number of times × Cost

Domestic business trip expenses and transportation expenses in general

9) Expenses of Board of Directors' Meeting

In principle, to be held once a year.

10) Advisory fees

Lawyers' fees and accountants' fees and account auditors' fees.

11) Entertainment expenses

One thousandth of the total sales.

12) Housing expenses of the Japanese expatriates

Whether the joint venture can afford to bear the expenses or not, whether the limit is to be set or not, and at what percent that limit should be?

13) Taxes

Corporate income taxes, local income taxes, value added taxes, export-import customs duties, automobile taxes, etc. According to the types of business and export-import position of the raw materials and products, the taxes due should be calculated.

14) Funds of three items

A certain portion of the profit after tax is to be contributed to the corporate development fund, employees' encouragement and welfare fund and reserve fund every year for accumulation. The board of directors should decide on the percentage to be withheld.

15) Tables for the profit analysis

Manufacturing Cost of Inflow Calculation Table

Selling and Administrative Expenses

Profit and Loss Calculation Table

Table for the Appropriation of Profit

Table for Simplified Calculation of Investment Recovery Projection

Cash Flow and Internal Return Calculation Table

Balance Checking Table and Outflow of Fund in Foreign Currencies

Sensitivity Analysis Table

16) Results of profitability analysis

Simplified Rate of Return on Investment

$(\text{Annual Average of Net Profit} \div \text{Total Investment Amount} \times 100)$

Simplified Rate of Return on Capital

$(\text{Annual Average of Net Profit} \div \text{Registered Capital} \times 100)$

Rate of Return on Sales

$(\text{Annual Average of Net Profit} \div \text{Annual Average of Sales} \times 100)$

Simplified Period Needed to Recover Investment About ○ years ○ months

Period Needed to Recover Investment About ○ years ○ months

Internal Rate of Return About ○○.○%

17) Risk analysis

In the case of 10 % decline in revenue Internal Rate of Return

In the case of 10% increase in material prices Internal Rate of Return

In the case of both occurring at the same time Internal Rate of Profit

10.3.7 Issues to be Followed

- (1) During the pilot project, the Study Team tried such activities as collection of SMEs's business needs/seeds information and inputting of them on the information network, guidance of Chinese counterparts to learn intermediation job through OJT, and specific business talk for matching making.

As a result, considerable outputs are generated such as filling up of information network contents and strengthening of competence of the SME service center staff.

Considering that the partnership activity requires rich experience and higher skill in business talks, and in addition, this activity is quite new for Chinese counterparts, and due to limited time and less opportunity of business communication between Japanese and Chinese enterprises, the Study Team only reached at an early stage that the total skeleton to precede the partnership work has become visible.

For further promotion of the partnership activities, problems to obstruct smooth negotiation between Japanese and Chinese side have to be eliminated previously.

For example, imprecise description of needs information causes unnecessary repetition of mutual inquiries, insufficient explanation of enterprise profile data causes anxiety to the partner, insufficient information on the background of business needs causes inappropriate countermeasures prepared for intermediation in terms of their technical contents and skill level, and insufficient information on market conditions hampers correct judgment of the corporate business management.

When we define better business environment provision for enterprises in order to facilitating smooth international business negotiation by eliminating impeding factors as "the partner interface". Following tasks have to be arranged to implement the partnership interface:

- 1) Holding of Seminars

For enterprises of asking partnership activities, seminars are provided for them.

Such knowledge and skill are necessary for them before starting business talk between Japanese and Chinese enterprises; namely a basic concept of business software development and technology transfer, comprehension of universal vocabulary and technical terminology, difference in practice between Japanese and Chinese way of business.

- 1) To identify core competence of the enterprise
- 2) Detailed manifestation of the desired partnership item and its basis
- 3) Understanding of market conditions and market trend
- 4) Clarification of trading conditions
- 5) Employment of the global finance and accounting standards
- 6) Registration of a candidate enterprise to the intermediately service center with necessary documents such as the enterprise profile and a letter of intent signed by the top executive.
- 7) To prepare a term of reference concerning intermediation fee (Additional fee is required if FS is requested)

(2) Consolidation of Supporting Bodies for Partnership Activities

1) Chinese Side

The Study Team entrust The Shinying SME Service center with building of the partnership interface. The Shinying SME Service center will continue further intermediation consulting guide to foster intermediation specialists along with software development firms and product manufacturers through OJT.

2) Japanese Side

The Study Team will try to provide well-arranged intermediation in Japanese side by asking some public and private intermediation bodies in the manufacturing and software development sectors. A part of commission fee will be paid for them.

Such organizations as Japan Northeastern Development Association, Tokyo Chamber of Commerce, Japan Technomart, and other private companies are under consideration.

10.4 Construction and Operation of Cash Flow-base Management Support Web Site

10.4.1 Backgrounds and Purpose of the Web Site

The financial structure of SMEs in Shenyang might be in the worst level in China as suggested by the statistics and questionnaire surveys concerned. The image of the local SMEs' credibility is bad as a matter of fact, and this may cause the serious funding difficulties

of them. This is an obstruction factor of their partnership activities with the foreign firms, too. To improve the situation, the government should carry out strategic and realistic measures, which support mainly SMEs with the development potential. This strategy may bring more benefit such as increase of tax revenue than that of the evenly support measures to all SMEs. For instance, it is expected that the SMEs' image of Shenyang would change for the better, if the government could promote more or less 300 excellent SMEs by the strategic support.

Recently, the financial accounting system including cash flow statement in accordance with the international accounting standards is already applied by SMEs and the introduction of personal computer into local SMEs is proceeding to some extent. This means that local SMEs would be able to put into practice of a scientific management such as the cash flow management today. In other word, SMEs in where general manager might secure the management sovereignty, set a correct management target and execute it would be able to improve the financial structure of the enterprise.

It should be noticed that the banks and the CGF take the cash flow of enterprise as the important indicator when they appraise the business performance of SMEs today. That is, the SMEs are requested in potential to steer their management in the direction where the operating cash flow should be increased in order to raise fund by indirect finance or by self-finance. However, this fact is not informed apparently to whole SMEs but only to SMEs that have the contact with the banks or the CGF at the occasion of their financing negotiation so far. The Study Team suggests to the government that it is necessary to transmit this information to all SMEs widely. Moreover, the local SMEs should correctly recognize that the banks etc. put cash flow statement confidence in as the important and transparent financial statement,

Then, the Study Team developed web site for the cash flow-based management support, which could enlighten a lot of general managers of SMEs and motivate them to work on the financial structure improvement. This system is operating on the Internet so that every SMEs can use it freely. The Study Team built up the system to be able to operate it in the state of maintenance free because this support service might be offered by free of charge.

The CGF that offers similar services to SMEs was appointed as the local counter part of the project. The CGF is doing business to mediate the credit guaranteed loan for SMEs who have the repayment ability and engage in the priority fields of high technology, employment, export, protection of the environment types. The customers of the CGF and the ones whom the Study Team intends to support by the web system are quite similar type of SMEs, which have the potentiality to become the excellent enterprises.

10.4.2 Outline of Contents

The learning course is a unique one. That is, in spite of a general manager of SME learns about the cash flow-based management of standard study supported by the web system, he could obtain the idea and practice being suitable for his company's improvement as a result. The explanation of the contents is as follows.

Generally speaking, if a general manager of SME has no experience in accounting or financial affair in the carrier development, the person does not have sufficient knowledge to be able to understand even primitive terms or formulas on the matters concerned. Therefore, such person often has an allergy to terminology of financial and accounting affairs, and he/she tends to assume that financial affairs are very complex matters. However, it may be impossible for anyone to replace the terminology into appropriate common words for easy understanding purpose. So, it is very difficult task to give the financial management knowledge later to such top management in order to make him practice it in the actual management restructuring process.

Then, the Study Team provided various devices so that a general manager of SME would be interested in the e-learning course of the web site. Its contents were designed special for the top management's use with user-friendly and benefit oriented devices. The device to secure trade secrets of individual SME is carefully adopted. The features of the web system are described hereunder.

- (1) The contents are made compact by being limited within the essential subjects, which are indispensable to the study purpose.
- (2) The contents are designed to be able to be completed in a short time.
- (3) The exercises are designed to handle only own management problems of each SME. And person in charge of accounting of the company could help the general manager in works required for the exercises, if such help would be necessary.
- (4) The intrafirm analysis and the future plan of its company can be executed at the same time as learning about the cash flow management.
- (5) The automatic calculating program on the downloaded EXCEL Books accelerate the speed of the analysis. This practice would let the general manager know the usefulness of EXCEL as the most convenient management tool, too.
- (6) The device, which secures perfectly the trade secret of each SME, is adopted to make the web system being used at ease.

Even the manager with scarce financial affairs knowledge can start from the basic chapter, and advance to the analysis chapter and the plan chapter, and complete these three chapters for a short time. On the other hand, the device in which steps can be learned bit by bit is installed to be able to study even at a short time for the manager who cannot take a settled sufficient time to consume.

Contents of the web pages are as follows.

Basic Chapter

STEP1 Method of using the web system



STEP2 Why is the cash flow important now?



STEP3 Basic study of the cash flow

Analysis Chapter

STEP1 Recommendation of self-diagnosis of the management



STEP2 Analysis of the profit and loss statement



STEP3 Analysis of the cash flow statement



STEP4 Analysis of profitability of the SME



STEP5 Important management index list

Plan Chapter

STEP1 Method of the short-term plan



STEP2 Cash flow management basic plan (short term plan)



STEP3 Scenario of the business performance improvement



STEP4 Challenge to completion of the cash flow management plan

10.4.3 Introduction of New Approach

After the construction of analysis system executed by examining the documents written by the a lot of experts in the United States and Japan and adjusting it to the accounting standard and accounting practice of China, the Study Team fixed the methodology.

In addition, after passing the co-work by the Japanese certified public accountant and Chinese certified public accountant, two certified public accountants of the CGF checked again the contents.

As a result, this web offers new approach in China as shown hereunder.

(1) Operating Cash Flow by the Indirect Method

A special method of combination of the direct and indirect method is adopted in operating cash flow statement in China accounting standard though the operating cash flow can adopt either direct or indirect method in the international accounting standards.

In this web site, the indirect method is adopted as a result of the discussion among members in charge. The indirect method is general in Europe, United States and Japan. The merits of the indirect method are (1) first of all it is easy to make a cash flow statement and (2) the relation between the cash flow and accounting title is able to be understood clearly and to identify the improvement targets of the corporation. In addition, analysis of cash flow of foreign company could not be done by the direct method. And analysis of past cash flow of Chinese company before 1998 could not be done by the direct method.

There is no problem of the adoption of the indirect method if it is used for a purpose not of the financial accounting but of the management accounting.

(2) Analysis of the Business Performance for the Latest Three Accounting Periods

The Study Team proposes the time frame that analysis of the business performance should be carried out for the latest three accounting periods. This caused an unexpected discussion among the counter part.

One staff of the counter part proposed that as the financial institutions and the credit guarantee centers of China evaluate the enterprises only by the financial statements of the latest one-year, the web system must follow the existing practice. However, the Study Team did not adopt this idea because it is theoretically impossible to analyze or to

forecast the business performance of the enterprises accurately. Instead, the Study Team introduces the Japanese practice of the credit guarantee system that carry out the appraisal based on the three years financial statements and Japanese corporation take this as the standards. It is expected that the quality of the appraisal by the financial institutions as well as credit guarantee centers could be improved to large extent by adopting three years frame and financial credibility on the Chinese enterprises trusted by foreign companies could be improved also.

(3) Qualitative Analysis by Manager of SME is Required

In self-diagnosis of this chapter, a manager is requested to elucidate the cause, which might bring the change in the management indices for the three accounting periods based on the individual situations of each enterprise.

The manager comes to consider the problems of the company's management for the first time through this practical and comprehensive analysis. And, he could make decision on the management improvement by priority based on the clearer proofs.

Moreover, manager is requested to record the findings of the self-diagnosis. This record will be use as the important materials for the management improvement plan. There are a lot of plans with poor contents, in where such process of diagnosis is omitted. And a lot of enterprises seem to repeat such mistake in the corporate development plan. These practices should be removed to improve the quality of the business plan and repayment plan of SMEs.

10.4.4 Speedy Exposure and Downloads of the Web Pages

Because a heavy web page is disliked, the Study Team tried to lighten it as much as possible. The logos, the banners and the buttons are installed for the attractive appearance and good navigation of the web pages, however, those are limited at least numbers.

The size of the file is 608 Kilo Bites as a whole. However, the system can display the screen at pleasant speed by dividing three sub pages of the basic chapter, the analysis chapter and the plan chapter.

The Study Team recommends that the data input works or the analysis should be carried out on the own personal computer of SME after the download and store of the contents. This method has the advantage of saving both of the time and the expense as well as security of the trade secret.

Because the EXCEL Books are not integrated in one system, it is necessary to repeat the same data input works in some cases. Though the design is inconvenient for users a little, this has the advantage of easy maintenance of the system.

10.4.5 Promotion Network of the Web Site

Besides the CGF, some SMEs support organizations and banks including the Shenyang SMEs service center have the intention to use this system. Such phenomenon is desirable for the promotion of this system to SMEs. And a “promotion network” shall be made by voluntary participation of the organizations concerned as drawn as Fig. 10-4-1. Details of the current situation of the organizations concerned including existing and confirming ones are described hereunder:

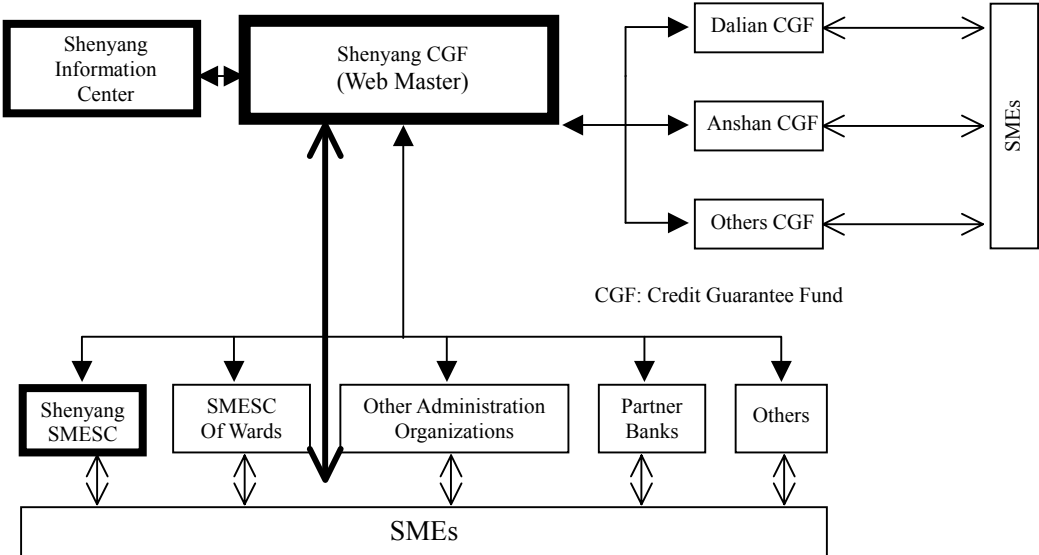


Fig. 10-4-1 Promotion Network of the Cash Flow-based Management Support System

(1) The CGF

The Study Team executed the workshop twice by the participation of almost all members of the CGF in June 2001. The first workshop was held for the CGF staffs exclusively and the second workshop was held as the joint workshop for 36 experts from three credit guarantee centers of the Liaoning province.

The CGF assisted the Study Team from the development stage of the web site. The experts of the CGF understand the contents accurately so that they could guide the cash flow-based management to SMEs or to other organizations concerned.

By the way, this center has own server and operate original web site to promote the credit guarantee business. The center sent news of the experimental operation of the cash flow-based management support system by this web site at the end of June 2001.

Moreover, the CGF plays role of the window of the cash flow-based management support web.

This center corresponds with questions from SMEs on the cash flow-based management by the FAQ (frequently asked question). The one by one response seems impossible due to the manpower availability so far.

This center has the intention to introduce this system to the SMEs support organizations and the partner banks.

(2) The Information Center

The Information Center offered its server for the pilot project and contributed to check usability of the web system at the development stage of the cash flow-based management support web site.

Now, clicking the banner of the SMEs information network's top page of which the Information Center takes charge can do the access of the cash flow-based management support web. Moreover, the FAQ made by the CGF staffs are sent by E-mail, and the persons in charge of the Information Center up-load those.

(3) The SMEs Business Advisory Center

The Study Team executed the workshop twice by the participation of almost all members of the SMEs Business Advisory Center in June 2001.

This organization seemed not to have been able to put out a clear conclusion how its business will relate to the cash flow management support web site due to the lack of the expert in accounting at the moment, though the participants could understand the contents of the web site.

It seems that the SMEs Business Advisory Center should consume a large energy for the partnership business now, and full assistance to promote the cash flow-based management support system shall be difficult.

(4) The SMEs Business Advisory Center of Dadong Ward (plan)

The Study Team introduced the cash flow management support system to the member of the SMEs Business Advisory Center of Dadong ward, which was in the preparing stage of establishment.

The member was interested in the system so that the SMEs Business Advisory Center seems to use it in the future.

(5) The Dalian SMEs Credit Guarantee Fund and the Anshan SMEs Credit Guarantee Fund

Almost of all staffs of both credit guarantee funds participated in the joint workshop of the Liaoning province credit guarantee funds (June 16 - June 19, 2001). Thirty-six persons including staffs of the CGF ardently took training with the guest from Beijing. The Study Team was invited as the lecturer and carried out the introduction and demonstration of the cash flow-based management support web and lectured on the credit guarantee system of Japan by spending two hours on June 18 three hours on June 16, 2001 respectively. The Dalian credit guarantee fund was interested in the cash flow management support system in particular. And the fund has been positively using it immediately after that.

10.4.6 Problem to be Solved in the Near Future

The existence of this web site should widely be known to SMEs as precondition of the success of the project. However, there exist limit in the advertising activities, which can be done only by the SMEs support organizations of the municipal administration because those organizations cannot afford temporally advertising expense and man-hours of staffs.

What the organizations concerned should put for an advertising strengthening to SMEs is described as follows:

(1) Cooperation Installation of Mass Media

It is cooperation of the mass media that a big advertising effect is achieved without putting expenditure. For instance, the government shall propose the plan of a regular serial on "Cash flow-based management" to the local newspapers. Serializing the theme by summarizing the content of the homepage and serve the column separately to several-time is the easy work.

(2) Cooperation Installation of Banks

It is quite necessary to obtain the cooperation of the banks in which a lot of bank clerks visit SMEs every day for the spread of the cash flow management support system. In that case, the independent strategy of each bank must be respected. The cash flow management link page for SMEs by linking here with the web site of the Study Team is planned in the HuaXia Bank. This is an example of using one and another banks' ideas of use it should be welcomed.

(3) Cooperation Installation of the Human Resources Development Organizations

It is possible that the organizations which operate the courses of financial affairs and accounting for the manager and the high-level executive training to introduces the cash flow support system to those trainees. Moreover, the contents could be compiling as a teaching material for the short-term training course of them.

CONCLUDING REMARKS

CONCLUDING REMARKS

1. Reflections on the Project

(1) Evaluation of the Study

- 1) The scheme of the Study suited the needs of the Chinese side (evaluation by the Chinese side).
- 2) The implementation timing was appropriate. As the Study was conducted when the promotion of SMEs began, some of the recommendations have actually been implemented. Compared to the time when the Study commenced, the staffing strength of the SME Office of the SMETC, have been halved but the Office have been concentrating on the work to facilitate the privatization of state-owned SMEs and to transfer the authority for their control from municipal governments to ward authorities. As shown in this case, the work of the Study Team and the work of the Chinese side have been mutually supplementary.
- 3) The SMETC has adopted and implemented the policy of entrusting support for SMEs to the SME Service Center and private bodies in order to minimize its involvement in the control of SMEs. It hopes to receive further assistance by a JICA study and the continuation of assistance by the DFID and the World Bank to foster and strengthen SME support bodies and to ensure their self-reliant development.
- 4) The Chinese counterparts honestly carried out what was advised or requested by the Study Team. For example, an information network has been created, meeting all of the detailed requirements in terms of the work schedule, completion date and specifications. The SME Service Center has cooperated with the Study Team from the beginning of the Study and has enthusiastically conducted the business introduction work.
- 5) The fact that promotion measures for SMEs in Shenyang are being implemented with the assistance of the JICA has frequently been reported by the Chinese mass media has contributed to the increased awareness as well as preparedness to promote SMEs (evaluation by the Chinese side).

(2) Achievements

- 1) Compared to its state in October 2000 when the Study commenced, the SME support system in Shenyang has made great progress. The major achievements are described below.
 - Establishment of SME Service Center (December 2000)
 - Commencement of JICA support for partnership activities (May 2001)
 - Transfer of the authority to control SMEs from municipal governments to ward authorities (SMEs are privatized as soon as this transfer takes place)
 - Establishment of the first ward level credit guarantee center (September 2001); it is planned that all wards will have a similar center by the end of 2001 with concrete preparations in progress to establish such a center in six wards by the end of 2001; opening of the SMETC Information Network (November 2000)
 - Opening of the network for SMEs created by the JICA (August 2001)
 - Advancement of privatization (target figure of 90% by June 2002)
 - Briefing on the promotion of innovative technologies and available government support for 100 excellent SMEs (February and March 2001)
 - Launching of the second business consultancy firm with the assistance of the DFID (July 2001)
- 2) 80 SMEs seeking partnerships have registered with the new Shenyang SME Information Network to send out their seeds and needs.
- 3) One model enterprise has exchanged a letter of intention through the business introduction service and negotiations are in progress with a view to establishing a partnership. A total of three cases of business introduction have emerged involving model enterprises.

2. Project Evaluation from Viewpoint of Study on Model Cities

Shinnying and Hingham were selected as the first model cities for the Small and Medium Enterprise Promotion Plan in China. China's leading heavy industries are located in Shinnying, such as jet engine and aircraft industries. It is an area where large state-owned enterprises developed over decades and local SME face many problems.

In contrast, Hingham is characterized by light industries and is a growth area for SME in China. It is believed that the findings of the Study for these two cities of completely different characters will be very useful for the purpose of providing reference materials for other cities in China.

The Study Team believes that the concept of SME and SME promotion measures, which have been made into models, among the recommendations based on the study findings can be applied to other areas in China.

(1) Characteristics of SMEs in Shenyang and Application to Other Cities

1) SME Support Model

A SME service center has been established in various cities under the instruction of the State Economic and Trade Commission. In Shenyang, the embryonic semi-governmental joint stock SME Service Center and SME Credit Guarantee Fund had already been established with the assistance of such international aid organizations as the JICA, the DFID and the World Bank even though the timing of their establishment was relatively late. During the study period, the functions of these centers were strengthened. A municipal SME support system is about to be fully developed through collaboration with ward level SME service Centers and Credit Guarantee Fund and with activities to attract and support SMEs by industrial development zones (industrial parks). The creation of a powerful support system can be expected through collaboration with the Productivity Promotion Center of the Science and Technology Commission. The SME Service Center, fostered by the DFID and assisted by the JICA, resembles the picture of the common model envisaged by international aid organizations. The DFID has provided guidance for this center on company diagnosis while the JICA has provided guidance on diagnosis, mainly featuring factory production, business introduction work and FS techniques using COMFAR, a software developed by the UNIDO. The center highly evaluates the Japanese-style diagnosis and guidance method emphasizing “manufacturing” compared to the British techniques taught by the DFID and is eager to learn this method.

The support system described above is believed to provide a useful model for other cities.

2) Information Network Model

Information networks are fairly spread throughout China with diverse information bases, ranging from nationwide to a single enterprise. However, the concrete information lacks universal applicability as it tends to feature a specific geographical area.

The Shenyang SME Network provides not only information but also techniques and education software which are useful for SMEs. These general-purpose tools should prove useful for other cities. The main tools are listed below.

- 1) Software to enable SMEs to create their own HP without difficulty
- 2) High performance search engine
- 3) Education software for cash flow-based management
- 4) English-Chinese automatic translation software

The effectiveness of these tools can be much enhanced by educational and dissemination activities by the SME Service Center, the SME Information Center and the SME Credit Guarantee Fund.

3) Improvement of Financial Problems of SMEs Through Wide Use of Cash Flow-Based Management

Fundamental reform of SME finance in China cannot be achieved without a change of the attitude of SMEs of not being bothered about repaying loans. In addition, SMEs must be encouraged to accumulate their own funds. Without such reform, no development of the guaranteed loan system involving credit guarantee centers and joint equity commercial banks can take place. The cash flow-based management software provided by the Shenyang SME Network provides a concrete tool to improve this situation and its wide use in China will increase the number of SMEs eligible for a bank loan.

4) Partnership Activities

Partnership activities currently exist between large enterprises. However, many SMEs do not even have access to overseas information. As a measure to rectify this situation, an information network service for SMEs can contribute to the business growth of SMEs. The Study Team has created a partnership model for Japanese and Shenyang enterprises using the Internet. This model is mostly characterized by its

inclusion of information from Japan and its ability to send business information on SMEs in Shenyang. In order for this network to produce successful results, further strengthening of its business introduction function is required. This work was fully conducted during the pilot project period because of the limited time and other reasons. However, it must be pointed out that there are several pending tasks.

- a) The Chinese side should create manuals to deal with business needs and seeds to facilitate a mutual understanding of Chinese and Japanese SMEs participating in partnership activities. Some type of Japanese assistance is desirable for business introduction bodies to learn and accumulate the relevant know-how.
- b) Partnership activities can be further promoted by establishing private business introduction bodies in both Japan and China.

In regard to the dissemination of this model to other areas in China, the Study Team has been told that a private Chinese enterprises already involved in trade between Chinese and Japanese SMEs is hoping to launch its own network similar to that created by the Study Team.

5) Integrated SME Promotion Measures

The integrated measures to foster excellent SMEs, incorporating all of the master plan items recommended to the Shenyang Municipal Government by the Study Team, are outlined below. The model described can be applied to other areas in China.

Starting with the improvement of SME management using the “cash flow-based management system for SMEs”, it is desirable for various banks and SME service centers to provide the types of customer services which cannot be provided by credit guarantee centers. For example, it is most desirable for excellent SMEs to be fostered and supported by a combination of technical management guidance provided by the Productivity Promotion Center. Such a combined service will prove to be quite productive for an increase of the customers, in addition to being advantageous for customers, of various financial institutions (mainly banks), the SME Service Center and such technical guidance centers as the Productivity Promotion Center as an additional SME service to that provided by Credit Guarantee Fund. Fig.1 shows the draft mechanism of these services.

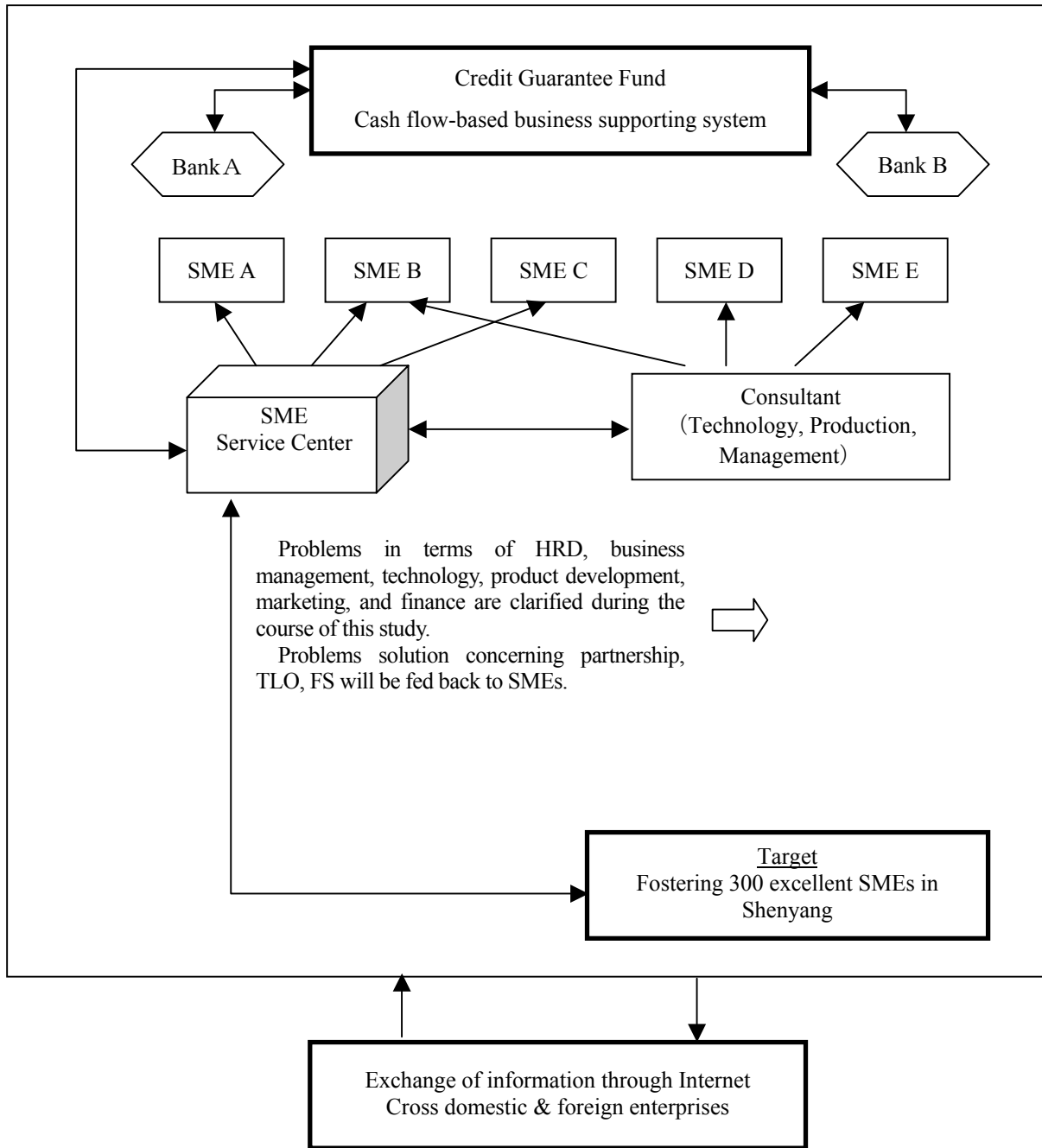


Fig. 1 Fostering Program of Excellent SMEs in Shenyang promoted by Shenyang CGF

(2) Evaluation of Master Plan for Shenyang from Viewpoint of National SME Promotion Policies

Table 1 shows how the master plan recommended to the Shenyang Municipal Government satisfies the national SME promotion policies in China. In particular, the recommendations implemented under the pilot project embody the SME policies indicated by the Government of China. The shaded items correspond to the intended

SME support measures of the SME Promotion Law. It is believed that the continued implementation of these items should achieve significant results.

Table 1 Comparison Between Master Plan Items and SME Policies/Opinions of Government of China

| Master Plan Items Recommended to Shenyang Municipal Government | SME Policies of Government of China (SME Promotion Law and Opinions on Desirable Policies) |
|---|---|
| Establishment and fostering of SME support system | <ul style="list-style-type: none"> • To provide support for (i) the diagnosis of and consulting for SMEs and (ii) information gathering, exchange, market development and human resources development by SMEs |
| Expansion of market for SMEs through partnership activities | <ul style="list-style-type: none"> • To support self-reliant, import-export activities by SMEs • To support business start-up by 100% investment or shareholding by foreign enterprises through the provision of preferential measures for SMEs exporting high technologies |
| Establishment and expansion of information networks | <ul style="list-style-type: none"> • To establish publicly accessible SME information service systems, making the best use of advanced technologies, including computer networking |
| Promotion of high technologies | <ul style="list-style-type: none"> • To lead and spread technological innovation using existing science and technologies and industrial parks • To analyze successful examples of technological innovation service bodies in each area and sector to identify common factors • To accelerate the fostering of technological innovation bases as well as industrial application bases to promote SMEs |
| | <ul style="list-style-type: none"> • To encourage and support the transformation of various research sections to business introduction bodies mainly serving SMEs in line with the reform of the science and technology R & D system |
| Reform of industrial structure | <ul style="list-style-type: none"> • To encourage the subcontracting of the manufacture of some products and parts by large enterprises to SMEs under specified conditions set by governments at all levels • To eliminate various regional protection measures to create market conditions where SMEs can compete with large enterprises in a fair manner |
| | <ul style="list-style-type: none"> • To encourage technological innovation |
| Strengthening of management base | <ul style="list-style-type: none"> • To encourage and support the strengthening of SMEs • To support the development of SMEs to become high-tech enterprises with improved technological innovation capability and market competitiveness |
| SME finance - Spread of cash flow-based management - Expansion of credit guarantee centers - Invitation to joint equity commercial banks to establish branches in Shenyang | <ul style="list-style-type: none"> • To encourage and support joint equity commercial banks, city commercial banks and urban-rural joint financial institutions which mainly serve SMEs |
| | <ul style="list-style-type: none"> • To actively improve the business environment for SMEs |
| | <ul style="list-style-type: none"> • To urgently strengthen the credit guarantee system |

APPENDIX

Glossary

Place

| English | Japanese |
|--|----------|
| Liaoning province | 遼寧省 |
| Shenyang | 瀋陽 |
| Heping ward | 和平区 |
| Shenhe ward | 瀋河区 |
| Datong ward | 大東区 |
| Huanggu ward | 皇姑区 |
| Tiexu ward | 鉄西区 |
| Dongling ward | 東陵区 |
| Yuhong ward | 于洪区 |
| Sujatun ward | 蘇家屯区 |
| Xinchenngzi ward | 新城子区 |
| Liaozhong province | 遼中県 |
| Kangping province | 康平県 |
| Fakuxian province | 法庫県 |
| Xinminxian province | 新民県 |
| Dalian | 大連 |
| Beijing | 北京 |
| Tiansin | 天津 |
| Shanghai | 上海 |
| Province | 浙江省 |
| Hangzhou | 杭州 |
| Shenzhen | 深圳 |
| Zhuhai | 珠海 |
| Changchun | 長春 |
| Harbin | ハルビン |
| Guangzhou | 広州 |
| D.P.RO (Democratic People's Republic of).Korea | 北朝鮮 |
| R.O. (Republic of) Korea | 韓国 |

State Organizations

| | |
|---|-----------|
| State Council | 国務院 |
| State Economic and Trade Commission (SETC) | 国家經濟貿易委員会 |
| State Planning and Development Commission | 国家計画委員会 |
| Security Management and Monitoring Commission | 国家監察部 |
| Ministry of Science and Technology | 科学技術部 |
| State trade and Industrial commission | 對外貿易經濟部 |
| Ministry of Finance | 財務省 |

| | |
|---|-----------|
| Department SMEs | 中小企業司 |
| State Intellectual Property Office | 国家知識産業局 |
| State Administration of Industry and Commerce | 国家工商行政管理局 |
| State Environmental Protection Administration | 国家環境保護局 |
| State Statistics Bureau | 国家統計局 |
| Chinese Academy of Science | 中国科学院 |
| Chinese Academy of Engineering | 中国工程院 |
| Chinese Academy of Social Science | 中国社会科学院 |
| State Council Development Research Center | 國務院發展研究中心 |
| State Administration of Machine Building Industry | 国家機械工業局 |
| State Administration of Light Industry | 国家輕工業局 |
| Dept. of Trade and Market | 国家国内貿易部 |
| Qinghua University (Tsinghua University) | 清華大学 |

Banks

| | |
|---|------------|
| Bank of Peoples Republic of China | 中国人民銀行 |
| Bank of China | 中国銀行 |
| Industrial and Commercial Bank of China | 中国工商銀行 |
| China Construction Bank | 中国建設銀行 |
| Agricultural Bank of China | 中国農業銀行 |
| Bank of Communication of China | 中国交通銀行 |
| China Merchant Bank | 招商銀行 |
| CITIC Industrial bank | CITIC 工業銀行 |
| Guandong Development bank | 広東發展銀行 |
| China Minsheng bank | 中国民生銀行 |
| China Everlight bank | 中国光大銀行 |
| Huaxia bank | 華夏銀行 |
| Shenyang City Commercial Bank | 瀋陽商業銀行 |
| Beijing Trust and Investment Center | 北京信託投資センター |

Shenyang municipal government organizations

| | |
|--|-------------|
| Shenyang Municipal Government | 瀋陽市政府 |
| Shenyang Municipal Economic and Trade Commission | 經濟貿易委員会 |
| Small and Medium Enterprise Office | 中小企業処 |
| Collective Enterprise Office | 集体企業弁公室 |
| Township-Village Enterprise Management Office (Bureau) | 郷鎮企業管理局 |
| Foreign Investment Economy Office | 外資經濟委員会 |
| Private Enterprise Promotion Commission | 民營經濟發展工作委員会 |

| | |
|---|--------------|
| Property Right Transaction Center | 産権取引センター |
| Information Network Center | 情報センター |
| Industrial Technology Exchange Center | 工業技術交流センター |
| Department of Technology Reform | 技術改造処 |
| Automotive Industry Office | 自動車産業弁公室 |
| Environmental Protection Industry Office | 環境保護産業弁公室 |
| Federation of Industry and Commerce | 工商連合会 |
| Economic Information Port Office | 経済情報港 |
| Electronic Industry Administration Office | 電子産業弁公室 |
| Information Industry Development Office | 情報産業弁公室 |
| Commerce and Industry Administration Department | 商工行政管理局 |
| SME Credit Guarantee Fund Center | 中小企業信用担保センター |
| State Science and Technology Department | 国家科学技術部 |
| Science and Technology Commission | 瀋陽科学技術委員会 |
| Productivity Promotion Center | 生産力促進センター |
| Municipal Science & Technology Center | 市科学技術交流所 |
| Dongbei University | 東北大学 |
| Shenyang Institute of Technology | 瀋陽工科大学 |
| Shenyang e-commerce Co., Ltd. | 瀋陽電子商務服務公司 |
| municipal vocational training center | 市職業訓練所 |

Type of Enterprise

| | |
|---|-----------|
| state- owned enterprise (state enterprise) | 国有企業 |
| government enterprise | 国営企業 |
| collective-owned enterprise | 集体企業 |
| cooperative enterprise | 股分合作企業 |
| joint ownership enterprise | 聯營企業 |
| limited liability corporation | 有限責任公司 |
| share-holding corporation Ltd, | 股分有限公司 |
| private enterprise | 私営企業 |
| private-funded enterprise | 私営独資企業 |
| private partnership enterprise | 私営合火企業 |
| private limited liability corporation | 私営有限責任公司 |
| private share-holding corporation | 私営股分有限公司 |
| township-village enterprise | 郷鎮企業 |
| joint- venture enterprise | 合資企業 |
| enterprise with sole (exclusive) foreign investment | 独資企業 |
| cooperation enterprise with foreign investment | 中外合作経営企業 |
| sole ownership enterprise | 個人企業 |
| individual enterprise | 個体企業(固体戸) |

| | |
|-----------------------|------|
| stock holding company | 持株会社 |
|-----------------------|------|

Others

| | |
|---------------------------|-------|
| Control Large, Free Small | 掴大放小 |
| rural credit bank | 農村信用社 |
| value-added tax | 増値税 |
| board of directors | 董事会 |
| board of auditors | 監査会 |