

I. Proposal for the Policy for Small and Medium Enterprises

I. Proposal for the Policy for Small and Medium Enterprises

Chapter 1 Summary of small and medium enterprises promoting policy (Text: Summary of small and medium enterprises promoting policy)

- (1) Backgrounds of the proposal: Importance of promotion of small and medium enterprises and the role of the City government · objectives of the policy · strategies and measures for achieving the objectives

1) Backgrounds of the proposal of small and medium enterprises promoting policy

The Chinese Government decided to prepare small and medium enterprises (hereinafter referred to as SMEs) promoting policy, established Small and Medium Enterprises Department in State Economy Commission, to study overseas policies for SMEs and to state concept of China's SMEs promoting policy. Basic policy is under preparation and not yet made public.

In line with the Chinese Government policy, the Hangzhou government also established Department of Small and Medium Enterprises and its lower organizations.

The current Hangzhou's SMEs promoting policy are as follows:

- ① Based on the concept presented in the Chinese Government's promotion policy, the Hangzhou government is examining a basic policy for SMEs in consideration of their present situation. Solutions required by SMEs and the system aiming to implement the solutions are not yet completed. As shown in the Central Government policy, the basic policy must include selection of targeted SMEs and completion of a support system for selected SMEs.
- ② Policies for fostering SMEs are distributed in various departments and there has been no system to prepare and implement the policy. Thus, Small and Medium Enterprises Department was established in State Economy Commission, but tasks for each department to implement, corresponding organizations and human resources are not completed. The staff is only four to five. In addition, there are various organizations related to SMEs in the Hangzhou government, there has been no system to coordinate those organizations, and measures for SMEs have been implemented individually.
- ③ There is no supporting system to appropriately deal with problems facing SMEs, such as shortage of human resources, funds and information.

2) Importance of promotion of SMEs and the role of the Hangzhou government

① Importance of promotion of SMEs

Of all enterprises with annual earning of more than 5 million Yuan in Hangzhou in 1999, SMEs make up 96% in the number of enterprises (99% when enterprises with earning of

less than 5 million Yuan are included), 64% in the amount of production, 3% in the number of employees and 46% in the total amount of profit tax. SMEs play an important role in the Hangzhou economy.

SMEs visited by the study group face problems resulting from the size of SMEs not from by industry and by enterprise, such as shortage of funds, human resources, information and measures against imminent China's admission to WTO. If appropriate measures are taken against these problems by the Hangzhou government, it will be apparent that SMEs in Hangzhou develop their own potential and greatly contribute to Hangzhou's economic development.

② Role of the Hangzhou government

To develop SMEs and for those to deal with their problems, the Hangzhou government should give a hand to SMEs in completing management environment including finance and in improving management resources on their own. For that purpose the Hangzhou government is required to prepare a basic policy for SMEs (Chapters 2 and 3), to establish concrete measures for promoting SMEs (Chapters 4 and 15) and budgetary measures thereof (Chapter 4 (4))

**Table I - 1 Itemized countermeasures for encouragement of SMEs
and the approximate budget of Hangzhou City Government**

	Contents	Budget needed per year	Investment
Completion of encouragement system of SMEs	Organization enlargement (personnel cost)	3 90 Million Yuan	
	Bringing up persons with talent	48,000 Yuan (will sink from the next year)	
Establishment of credibility of SMEs and private enterprises	Public recognition for the best managed enterprises	Avery few	
Completion of management environment	Investment by the government to the financial institution (the Credit Guarantee Organ)		Min. 250 Million Yuan
	Investment by the government to the Investment Fund (LPS)		At the first step 2 Million Yuan to the Managing Organ
Assistance for improvement of the management resources	Assistance for bringing up persons with talent of SMEs	14,000 Yuan	
	Bringing up the advisors	2 16 Million Yuan	
	Completion of the management and Cost indexes	20,000 Yuan	
	Completion of institutions for developing the new technology		Equipment cost 20 million Yuan, Investment to SMEs 200,000 Yuan
	Diagnosis at the production places	240,000 Yuan (once)	
	SMEs network (maintenance and development)	38,000 Yuan	170,000 Yuan

3) Target of policy for encouragement of SMEs :

By the completion of the adequate encouragement system regarding the problems that SMEs of Hangzhou City now meet with, the development of SMEs of Hangzhou City shall be designed, and finally the economical development of Hangzhou City shall be promoted. This is the target of policy for encouragement of SMEs.

4) Strategy to achieve the target

To achieve the target described in the above 3), completion of encouragement system for SMEs (Strategy 1) is necessary, and therefore the completion of management environment including the financial institutions (Strategy 2) and assistance for assistance for improvement of the management resources of enterprises (Strategy 3) are also needed.

The diagnostic group attaches the following proposals for each strategy

Strategy 1 Regarding encouraging system of SMEs, the following shall be proposed.

- ① Decision of basic policy for encouragement of SMEs
- ② Selection of SMEs to encourage
Considering the present situation of Hangzhou City, the diagnostic group proposes the following fields of SMEs.
 - a. SMEs needing to enforce the power for the international competitiveness
 - b. High technology type SMEs
 - c. Area concentrated type SMEs
 - d. Parts manufacturing type SMEs
 - e. Primarily processed product type SMEs
 - f. Especially nominated fields of SMEs
- ③ Enforcement of the assistance system
 - a. Completion of the organization (establishment of a co-ordination organ for the SMEs relating organs of Hangzhou City Government, enforcement of SMEs Office and its relating organs)
 - b. Bringing up the executors of SMEs policy
 - c. Establishment of credibility of SMEs and private enterprises

Strategy 2 Regarding the completion of management environment, the following shall be proposed

- ① Finance (Establishment of the special bank for SMEs, enforcement of credit guarantee)
- ② Investment fund (Establishment of limited-partner type investment fund for assistance of SMEs modernization by Economy Committee of the government) (Pilot Project)

Strategy 3 Regarding assistance of improvement of management resources, the following shall be proposed.

- ① Bringing up persons with talent of SMEs
- ② Bringing up of advisors
- ③ Management diagnostic of SMEs and decision of management indexes and cost indexes
- ④ Completion of the institutions for technology development
- ⑤ Diagnostic at the production places for bringing up the area concentrated type SMEs
- ⑥ Establishment of SMEs network (Pilot Project)

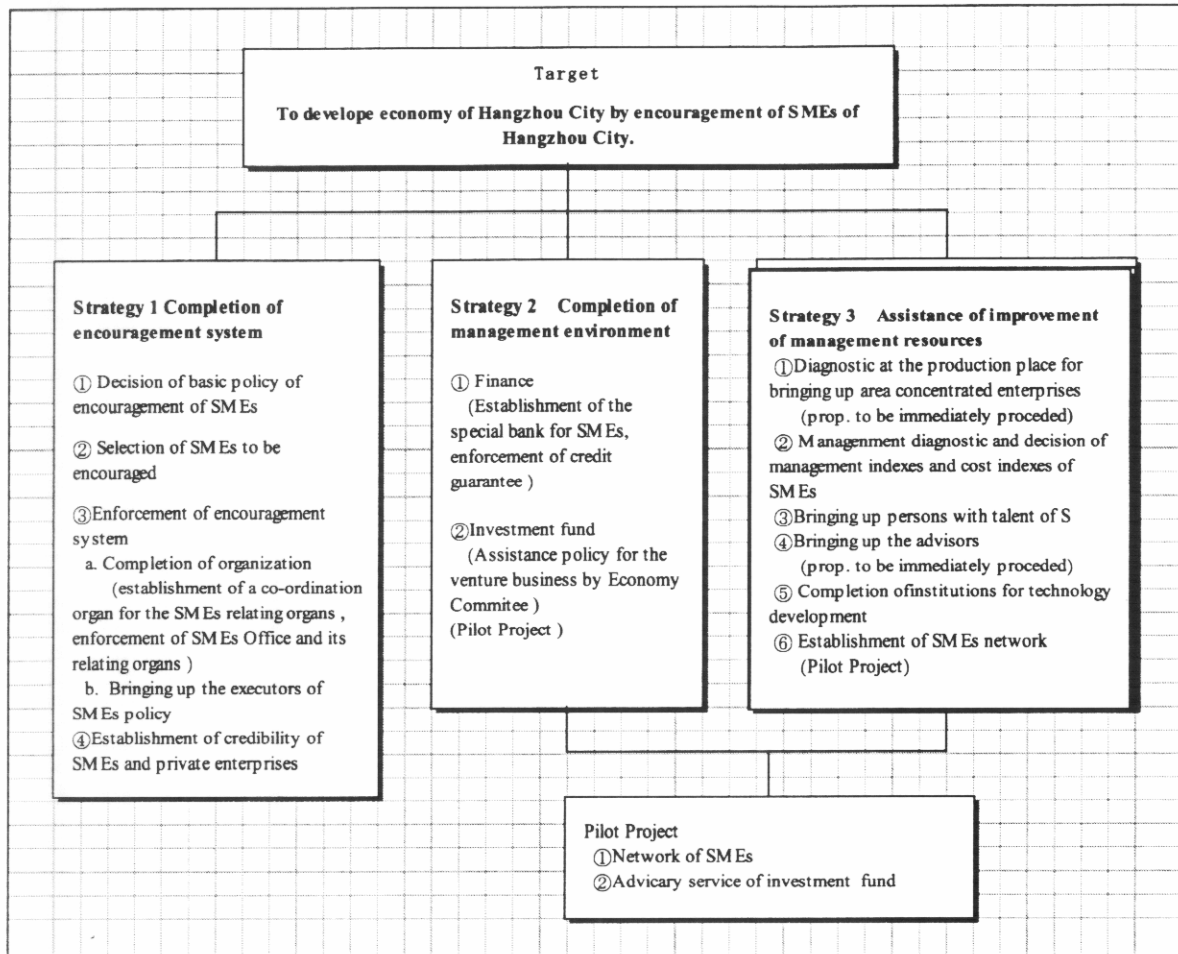


Figure I - 2 Target and strategy of encouragement policy for SMEs

Relation between the target of encouraging SMEs and strategy and countermeasures to achieve the target (Pilot Project) is described as below.

Table I - 2 Relation among target, strategy, countermeasure
 Target · to develop economy of Hangzhou City by vitalizing SMEs

Countermeasure	Strategy	Completion of encouragement system for SMEs	Completion of Management environment	Support for Improvement of Management resource
Page in the Report				
1 Policy of encouragement of SMEs	5.1	◎		
(1) Clarification of the definition of SMEs		◎		
(2) Selection of the fields to be encouraged		◎		
1) General policy of encouragement of SMEs	5.2.1			
2) SMEs needing to enforce international competitiveness	5.2.2			
3) High technology type SMEs	5.2.3			
4) Area concentrated type SMEs	5.2.4			
5) Parts manufacturing type SMEs	5.2.5			
6) Primarily processed product type SMEs	5.2.6			
7) Especially nominated fields SMEs	5.2.7			
2 Completion of execution system of policy		◎		
Completion of assistance organization of SMEs	5.3.1			
1) Establishment of the development groups of SMEs				
2) Completion and development of SMEs Office of the Government				
3) Completion and development of the relating organizations				
4) Completion and development of the function of Industry & Commerce Association				
3 Bringing up the executors of encouragement policy	5.3.2	◎		
4 Establishment of credibility of SMEs and private enterprises	5.3.3	◎		
5 Financial system	5.3.4		◎	
SMEs finance				
1) Completion of industrial finance				
2) Completion of credit guarantee organization				
6 Investment fund	5.3.5		◎	
Completion of the private equity investment market				
Examination of establishment of the limited partner type venture capital				
Pilot of advisory service of establishment of investment fund	6.2		▲	
7 Bringing up persons with talent for SMEs	5.3.6			◎
8 Bringing up the advisors	5.3.7			●
9 Management diagnostic of SMEs and decision of management indexes & cost indexes	5.3.8			○
10 Completion of institutions for technology development	5.3.9			◎
Diagnostic at the production places	5.3.10			●
Assistance for information oriented SMEs	4.5			○
SMEs Network	6.1			▲

○ policy ◎ strongly related ● countermeasure to be immediately proceeded ▲ Pilot Project

(2) Proceeding schedule

The items needed to be immediately proceeded and the ones to be proceeded after examination are separately described hereunder

1) The items needed to be immediately proceeded

The items needed to be immediately proceeded belong to the classified groups as below; 1) Basic items for SMEs encouragement 2) Pilot Project that have already been begun to proceed 3) the items that can be proceeded in the present system, and shall be immediately proceeded for a meaning of continuity of the diagnostic at this time

Table I - 3 The items needed to be immediately proceeded

Proposed item	Detail	Necessity·present situation	Main executor
Improvement of encouragement organization	①Establishment the advisory group②Completion of SMEs Office and the relating organs ③Enforcement of cooperation with the existing I & C Association. The diagnostic group propose these items in 5.3.1.	This is a key item for SMEs encouragement, and cannot be gone without for the promotion of selection of priority fields and the detailed countermeasures	Hangzhou City Government including Mayer shall decide this item
Bringing up the executors	SMEs Encouragement related persons shall attend to a seminar and training at site to understand the present situation, and to become familiar to the countermeasures for SMEs encouragement The diagnostic group proposes this in 5.3.2	Even if a system has been established, and has no suitable persons with talent in it, then the operation will not work well, and will not have any worthy result	Economy Committee, SMEs Office, SMEs Service Center
Establishment of credibility of SMEs and private enterprises	Certification for the best enterprises	Arousing the will to improve SMEs	Economy Committee
Maintenance and development of SMEs Network (Pilot)	Enforcement of access of SMEs to the information Pilot Project has already been established and is now working	By maintenance of the SMEs network now in operation, spread of IT to SMEs and access to the foreign Internets and so on, to answer SMEs's request is necessary.	SMEs Service Center
Establishment of investment fund (Pilot)	Now under proceeding as Pilot Project, and applied the investment fund by the limited partner type	Promotion of SMEs modernization using High-Technology in case of establishment of investment fund	Economy Committee, SMEs Office, SMEs Service Center
Bringing up the diagnostic advisors (min requirement)	A seminar shall be held at the min extent for the diagnostic advisors The diagnostic at this time was very effective for this purpose	At the first stage, min. extent of diagnostic for management shall be proceeded, and enforcement of management of SMEs shall be carried out	SMEs Technology Creating Promotion Center
Diagnostic at the production places	In Hangzhou City, there exist many area concentrated SMEs The measures to be adopted to the market and present situation are clarified here Sample of Fenshui District ballpoint are in 5.3.10 described by the group	Using the diagnostic at the production place, development of many areas concentrated type SMEs can be prompted	SMEs Office will cooperate with Fenshui Ballpoint Factory, and Proceed diagnostic in the production place at the first time.

2) The items to be proceeded after examination

These items are favorable to be decided to diagnose SMEe after necessary examination and consultation with the related persons and organs of Hangzhou City Government and the outside organization on advance. They consist of the items not necessary to be proceeded immediately

Table I - 4 The items to be proceeded after examination

Proposed item	Detail	Necessity	Main executor
Selection of priority fields	Selection of SMEs fields suitable for Hangzhou City, and decision of detailed measures for each field The group proposed 6 items in 5.2, and introduced samples of Japan	Hangzhou City can use the limited fund and personnel effectively for SMEs encouragement	For the moment, Economy Committee proceed this, in future SMEs Development Advisory Group will take this role after establishment
SMEs finance	The group proposes, a Completion of governmental special bank b Recognition of condition of Priority loan c Completion of credit guarantee organization	SMEs have difficulty to procure fund, and necessity to solve these problems by the governmental assistance	People's Bank, Economy Committee
Seminar for SMEs's managers, engineers and employees	To bring up each SMEs employees for necessary talent The group proposes the necessary items in 5 3 6 (Bringing up persons with talent)	In Hangzhou SMEs, persons with talent lack, and to rise up the level of talent is necessary for modernization of SMEs	SMEs Technology Creating Promotion Center
Completion of management details of the advisors, and seminar about manufacturer's spirits	To rise up the level of talent of the advisors and seminar about manufacturer's spirits are necessary to proceed The group propose the details in 5 3 7 (Bringing up persons with talent)	Rising up the level of the advisors to SMEs's necessary direction can promote the modernization of SMEs	SMEs Technology Creating Promotion Center
Completion of institutions for technology development	Establishment of test and research institutions for the fields of machine, electronics, electric and light industry The proposal is in 5 3 9	Proceeding the function inspection of material, parts and products can raise the quality and productivity level of products, and can obtain new knowledge about technology and operation of the equipment.	Economy Committee, SMEs Office, SMEs Technology Creating Promotion Center
Decision of management indexes	To grip the indexes of SMEs management, and gather the data for each field and each scale, as described in 5 3 8	SMEs can become to know own weak point and lead point, make use these data on management and strategy planning as well as City Government	SMEs Office, SMEs Service Center

Chapter 2 Preparation of SMEs Basic Policy

(Text: 5.1 SMEs invigorating policy and necessity of measures for invigoration)

(1) Concept and construction of basic policy (Summary of SMEs policy)

Basic policy is essential for invigorating SMEs, including definition of SMEs. Basic Law of SMEs is under consideration by the central government and will be made public in the foreseeable future. Hangzhou government should have SMEs basic policy in consideration of industrial structure in Hangzhou, and include fields to be invigorated and invigoration measures.

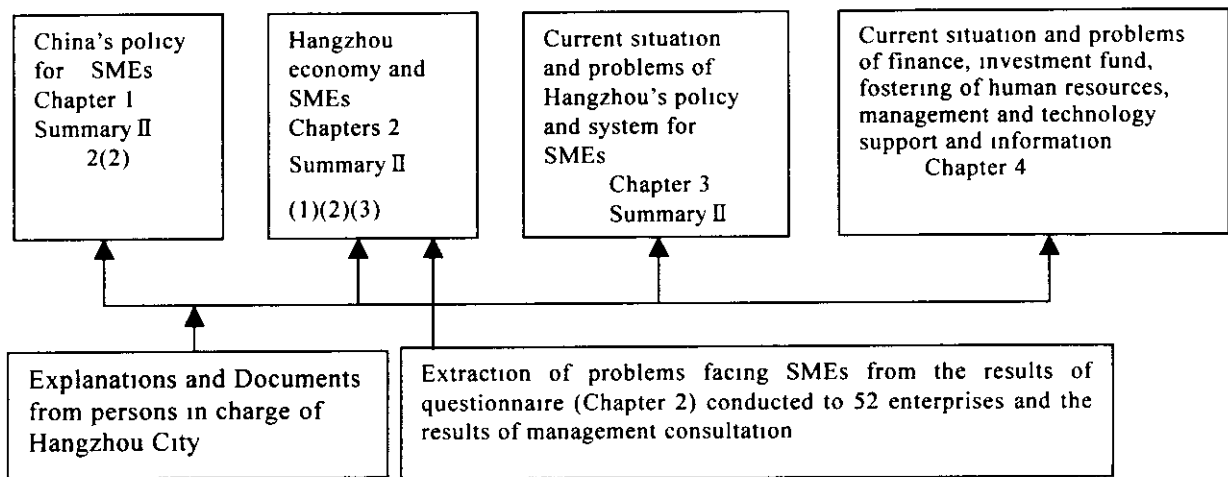


Figure I -3 Concept of basic policy

Basic policy must be instituted because it exercises control over definition of SMEs, selection of fields to be invigorated and completion of effective supporting measures against problems facing SMEs, such as human resources, management, financing and information. These measures can be prepared and applied in order, and be combined for each case. To effectively implement the policy, it is necessary for Hangzhou government to complete organizations related to SMEs invigoration and to foster human resources.

1) Proposal (Chapter 5)

Completion of a SMEs promoting system			Completion of management environment		Improvement of management resources				
Preparation of to SEMs promoting basic policy 5 1	Selection of SEMs to be promoted 5 2	Strengthening of a support system (immediate start)		SMEs loans 5 3 4	Investment fund 5 3 5 Advisory service 6 2	Fostering of human resources in SEMs 5 3 6	Fostering of instructors 5 3 7 (immediate start)	Improvement of management and technology	
		Completion of organizations 5 3 1	Fostering of the staff in charge of SMEs 5 3 2					Building of credibility of SMEs and individuals 5 3 3	Preparation of management and cost control indicators 5 3 8

Table I -5 Proposal for supporting SMEs

2) Items to be promoted and pilot projects

Table I -6 Pilot projects

Items to be promoted	Pilot project
Information network 4.5	SMEs network 6.1
Proposal to investment fund 5.3 4	Investment fund advisory service 6.2

(2) Important points in preparation of basic policy

1) Present situation of SMEs basic policy

Chinese economy is in the transitional period to socialist market economy and SMEs promotion has been just started

In Hangzhou, measures for SMEs have been conducted by industry and by type of ownership Problems facing SMEs have not been dealt with as common to and across SMEs At present, a legal system is under preparation. Concrete supporting measures are being enforced for high-technology enterprises. SMEs basic policy is not yet completed.

2) Objectives and effect of proposal

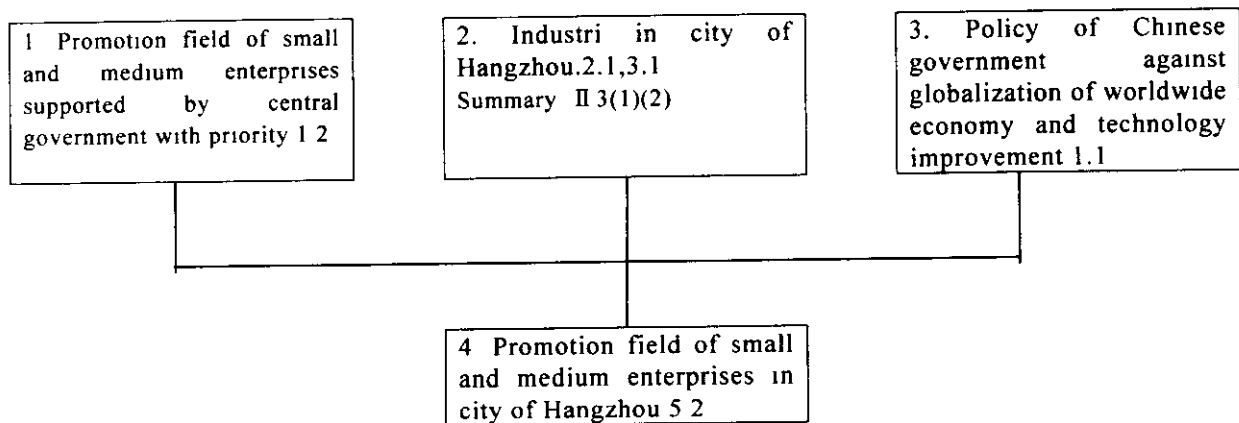
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Chapter 3 Selection of field of small and medium enterprises to be promoted in city of Hangzhou

(The text : 5.2 Preparation of promotion plan for small and medium enterprises)

In order to select the field to be promoted the following points are considered: 1. Policy of Chinese government. 2. Industrial structure of city of Hangzhou. 3. Policy of Chinese government against globalization of worldwide economy.

Selecting method



<p>1 Promotion field of small and medium enterprises supported by central government with priority</p> <p>(1) The small and medium enterprises of scientific technology type, labor-intensive type, resource synthetic utilization type, farm products processing type, export type and region service type To make satisfy the market needs through continuous improvement of the quality and technology of the products and increasing the kinds of product</p> <p>(2) The small and medium enterprises with low technical level, inferior quality, environmental pollution, waste of resources and not fulfill safe operation are closed taking actions based on the national laws and regulations</p>																
<p>2 Present state of industries in city of Hangzhou</p> <p>(1) There are many enterprises having excellent will to develop (there is many investment chance)</p> <p>(2) There is excellent university / research agency and forms the upbringing base of high-technology industries (information, medical industry)</p> <p>(3) Since there is home electric apparatus industry, the parts industry exists</p> <p>(4) Specific industry is concentrating in a specific area</p> <p>(5) There are many export industries</p> <p>(6) There is farm products processing resource of</p> <p>(7) Main industries are (i) Mechanical, electric, electronics (including semi-conductors, computer) (ii) Chemical (iii) Medical, (iv) Textile, sawing (v) light industry, (vi) Foods industry, (vii) Information and no heavy chemical industry</p>																
<p>3 Policy of Chinese government against globalization of worldwide economy and technology improvement</p> <p>(1) Participate globalizing international market including joining to WTO</p> <p>(2) Promote the transferring from socialistic planned economy to socialism market economy</p> <p>(3) Promote scientific technology that is developing worldwide (IT, biochemical)</p>																
<table border="0"> <tr> <td data-bbox="204 1451 995 1485"> <p>4 Promotion field of small and medium enterprises in city of Hangzhou</p> </td> <td data-bbox="1086 1480 1302 1547"> <p>Reason of selection (above)</p> </td> </tr> <tr> <td data-bbox="264 1554 963 1621"> <p>(1) General policy to promote small and medium industries (Modernization of industry existing in city of Hangzhou)</p> </td> <td data-bbox="1086 1554 1190 1588"> <p>1(1),3(2)</p> </td> </tr> <tr> <td data-bbox="264 1626 938 1659"> <p>(2) Heightening measures of international competitive position</p> </td> <td data-bbox="1086 1626 1190 1659"> <p>2(5),3(1)</p> </td> </tr> <tr> <td data-bbox="264 1664 895 1697"> <p>(3) Small and medium enterprises of high-technology type</p> </td> <td data-bbox="1086 1664 1190 1697"> <p>2(2),3(3)</p> </td> </tr> <tr> <td data-bbox="264 1702 922 1736"> <p>(4) Small and medium enterprises of area concentrating type</p> </td> <td data-bbox="1086 1702 1134 1736"> <p>2(4)</p> </td> </tr> <tr> <td data-bbox="264 1740 815 1774"> <p>(5) Small and medium enterprises of parts industry</p> </td> <td data-bbox="1086 1740 1134 1774"> <p>2(3)</p> </td> </tr> <tr> <td data-bbox="264 1778 1027 1812"> <p>(6) Small and medium enterprises of primary products processing type</p> </td> <td data-bbox="1086 1778 1238 1812"> <p>1(1),2(6),2(7)</p> </td> </tr> <tr> <td data-bbox="264 1816 895 1850"> <p>(7) Small and medium enterprises of specific industry field</p> </td> <td data-bbox="1086 1816 1134 1850"> <p>2(7)</p> </td> </tr> </table>	<p>4 Promotion field of small and medium enterprises in city of Hangzhou</p>	<p>Reason of selection (above)</p>	<p>(1) General policy to promote small and medium industries (Modernization of industry existing in city of Hangzhou)</p>	<p>1(1),3(2)</p>	<p>(2) Heightening measures of international competitive position</p>	<p>2(5),3(1)</p>	<p>(3) Small and medium enterprises of high-technology type</p>	<p>2(2),3(3)</p>	<p>(4) Small and medium enterprises of area concentrating type</p>	<p>2(4)</p>	<p>(5) Small and medium enterprises of parts industry</p>	<p>2(3)</p>	<p>(6) Small and medium enterprises of primary products processing type</p>	<p>1(1),2(6),2(7)</p>	<p>(7) Small and medium enterprises of specific industry field</p>	<p>2(7)</p>
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Figure I - 4 Selection of promotion field of small and medium enterprises in city of Hangzhou

Table I -7 Summary of selecting reasons /present state and problems / suggestions and effects (⇒Text 5.2)

Items	Selecting reasons	Present state / problems	Suggestions / purposes and effects
Basic promotion policy for small and medium enterprises	Concrete basic policy is required, because it is under transient period to socialism market economy and beginning period of promotion for small and medium enterprises	In the past, small and medium enterprises were seized according to every industry and ownership, and there were no transversal measures against common problem of small and medium enterprise in Hangzhou (policy for township enterprise existed) At present, law system and organization being arranged Concrete supporting measures are applied to high-technology industry but basic policy for small and medium enterprises is still primitive	Definition of small and medium enterprises, selection of fields to be promoted and arrangement of effective supporting measures against confronting problems of small and medium enterprises such as skilled personnel, management / technology, financing, information etc are necessary, and enactment of the basic law including all concerning matters is required These measures can apply combining to each case, and can arrange and apply in turn from possible one To execute the measures effectively, arrangement of organization related to promotion of small and medium enterprises in city of Hangzhou and upbringing of personnel engaging to the organization are necessary Through these measures, sound small and medium enterprises will be developed and contribute to economy in Hangzhou remarkably
1 Small and medium enterprises required to heighten international competitive position	There are many export enterprises in Hangzhou, but heightening of international competitive position is required corresponding to globalizing international market and joining to WTO of China	Estimation of market demand and analysis of competitive enterprises are not performed sufficiently Positive information gathering including utilization of communication network is insufficient Acquisition of ISO9000 is progressing relative widely but promotion of quality control is poor There are many enterprises completed no manufacturing cost. International transparency will be required in future	Heighten international transparency through clarification of accounting system together with improving physical constitution of enterprises by upbringing of personnel and diagnosis / guidance of enterprises Quality control and environment control are also guided so that able to correspond to international standard Intensify training of international business / risk Intensify utilization of IT to get international information Introduce the software companies growing in China and heighten utilization of them Capability that can respond to the systems after joining WTO will be enhanced through these measures
2 Small and medium enterprises of high-technology industry type	Upbringing of high-technology industry is given priority in China Hangzhou has excellent university / research agency and form growth base of high-technology industry	Upbringing measures of enterprises of scientific technology type have being taken already There is cooperation between industry, university, and government, but upbringing of high-technology enterprises is main purpose Not only high-technology industry but also introduction high-technology into management are also included in Chinese governmental policy, but activity to promote utilization of high-technology is expected in future	Introduction of high technology into traditional industries shall be supported Perform training of managers to get information on novel manufacturing technology and products, (proposed to upbringing of personnel group) Modernization of enterprises by utilization of high-technology shall be included in object of investment fund, and cooperation of industry, university and government in this aspect shall be reviewed (proposed in investment funds) Traditional industries will be modernized also through these measures

<p>3 Small and medium enterprises of area concentration type</p>	<p>Specific enterprises are concentrating in a specific area in Hangzhou</p>	<p>Reason of concentration of specific industries in a specific area is generated mainly spontaneous and there was no governmental fostering. However, some group of small and medium enterprises of area concentration type have disrupted due to getting behind to respond against market change in aspect of products development and manufacturing technology under trend of internationalization</p>	<p>First of all, urgent synthetic investigation of actual state of economical activities in producing place is required by diagnosis of producing place. Based on the investigation results (1) Aim to heighten efficiency of enterprise activities through promotion of between process / horizontal specialization of work of enterprises in producing place (2) Promote technology interchange between enterprises in order to make advance the technology (3) Promote interchange between enterprises positively to perform cooperative research for new product development, arrangement of common inspection room / inspection equipment, cooperative purchasing of raw material, cooperative financing, cooperative propaganda / sales. Arrange the promotion system above Disruption of this enterprise group can be avoided through these measures and growth by heightened competitive position will be expected. Immediate start of diagnosis of producing place is proposed</p>
<p>4 Small and medium enterprises of parts industry</p>	<p>There is assembling industry of home electric apparatus and therefore parts industries are existing in Hangzhou</p>	<p>Administrative protection for subcontracting enterprises is not conducted There is no organization to promote subcontractors There is no organization/system that provides enterprise matching</p>	<p>Enforce the law that is similar to the law of smoothening of trade of Japan Perform the matching service utilizing small and medium enterprises network Establish subcontractor promotion organization Support market extension and self-supporting of enterprises through forming budget of subsidy and trust money for technology development Improvement of technical ability, reinforcement of management strength, establishment of fair trade relationship and stable order receiving for small and medium enterprises of subcontractor type can be expected by these measures. Development of parts industries serves to heighten competitive position of assembling industry</p>
<p>5 Small and medium enterprises of primary products</p>	<p>Promotion of foods industry is Chinese governmental policy. Foods industry is major industry in Hangzhou. In addition, there are farm products as processing resource in Hangzhou</p>	<p>Promoting measures to heighten additional value of locally produced primary farm products is insufficient There is no information that investigation on market needs and possibility of enterprise development had been performed</p>	<p>Perform concrete investigation and planning of measures to intensify cooperation between foods industry and agriculture Support the technology development to introduce high-technology into foods industry Promotion of locally produced farm products processing industry serves to expand employment and to correct area gap between farming village and city</p>

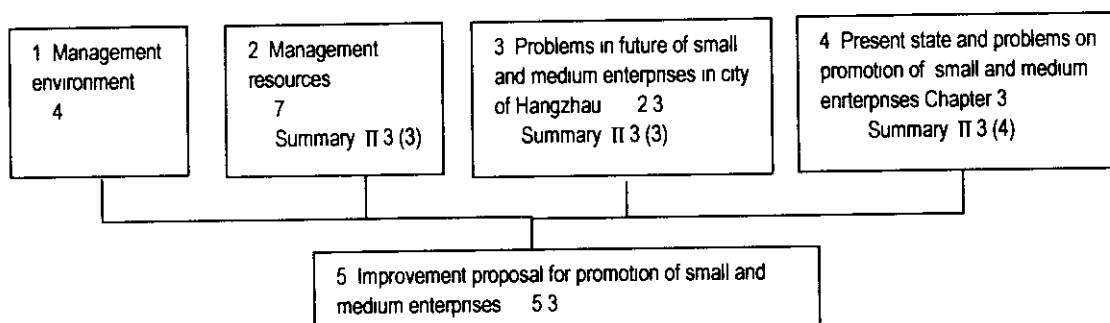
<p>6 Small and medium enterprises in specific</p>	<p>There are mechanical/electronics, chemical, medical and spinning / sawing, light industry, foods industry and information industry in Hangzhou as main industry</p>	<p>City of Hangzhou provides enterprise promotion policy for every industry, but small and medium enterprise measures against specific industry of every field are not arranged</p>	<p>Take necessary measures for every specific industry-clarifying role of small and medium enterprises With concentrated supporting measures on specific industries that are leading the economy of city of Hangzhou, further development of these industries will be accelerated</p>
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Chapter 4 Supporting measures to promote small and medium enterprises

(The text: 5.3 Measures for promotion)

(1) Reasons of proposal for supporting measures to promote small and medium enterprises

The concrete measures to improve the supporting of small and medium enterprise were prepared based on the following items. 1 The management environment confronting to small and medium enterprises in city of Hangzhou (by questionnaire) 2. The management resources confronting to small and medium enterprises (by questionnaire). 3. The problems in future in small and medium enterprises in city of Hangzhou (by questionnaire). 4. The present state and problems on supporting of small and medium enterprises



- | |
|--|
| <p>1 Management environment (by questionnaire)</p> <ul style="list-style-type: none"> (1) Personnel (Feel strongly necessity of personnel upbrnnging , limitation of internal upbrnnging, skeptic to external upbrnnging) (2) Provision of funds (difficulty of provision of necessary funds, insufficient credit security system, complicate financing procedure, short financing period) (3) Market information (lack of marketing/communication net/personnel having linguistic ability, lack of funds ability) (4) Development of new products (Mostly self development Lack of personell though it is considered that differentiation between other products is necessary) |
| <p>2 Management resources (Diagnosis/guidance of enterprnses)</p> <ul style="list-style-type: none"> (1) Management basis (2) Products development (3) Production control (4) Manufacturing technology (5) Sales / business (6) Procurement (Details are described on the next page) |

<p>3 Problems in future of small and medium enterprises in city of Hangzhou (by questionnaire)</p> <p>(1) Joining to WTO (most interesting matter, supporting of personnel upbringing / financing / information acquisition is important)</p> <p>(2) Development of ability (Production control / management control / intensifying of marketing)</p> <p>(3) Upbringing of personnel (4) Effort with ISO9000 (5) Arrangement of sales network</p> <p>(6) Development of new products</p>	
<p>4 Present state and problems for promotion of small and medium enterprises</p> <p>(1) Upbringing of personnel (Though the labor administration education committee is main body of personnel upbringing, it is functioning not enough due to mismatching to requirement of small and medium enterprises)</p> <p>(2) Financing ((a) There is no governmental specialized bank forming core of loan to small and medium enterprises (b) Industrial financing of small and medium enterprises is not arranged (c) There is no program of favorable loan (d) Credit security body controlled by government is not arranged (e) Definition and scope of small and medium enterprise is not clear (f) investment fund (There is fund for high-technology enterprise group but fund for technology improvement of enterprises is poor)</p> <p>(3) Market information (depend to personal network mainly and utilization of Internet is poor)</p> <p>(4) Development of new products (At present self development is main)</p>	
<p>5 Proposal of improvement for promotion of small and medium enterprises</p> <p>(1) Upbringing of personnel ((a) Training of managers, employees and engineers of small and medium enterprise (b) Upbringing and buildup of diagnosticians)</p> <p>(2) Financing ((a) Arrangement of industrial financing for small and medium enterprises (b) Arrangement of credit security Co. of small and medium enterprises)</p> <p>Investment funds ((a) Intensify supporting function for venture by economy committee (b) Restructuring of cooperation system between industry and university (c) Intensifying of supporting for direct financing by small and medium enterprises service center)</p> <p>(3) Market information ((a) Establishment of small and medium enterprise network (b) Promotion of utilization of IT by small and medium enterprises)</p> <p>(4) Development of new products ((a) Supporting for acquisition of market / technology information (b) Upbringing of personnel)</p>	<p>Reasons of selection</p> <p>1(1), 3(2), 3(3), 4(1)</p> <p>1(2), 4(2)</p> <p>1(3), 4(3)</p> <p>1(4), 2(2), 3(6), 4(4)</p>

Figure I -5 Measures for improvement of small and medium enterprise supporting

(2) Management resources confronting with small and medium enterprises in city of

Hangzhou

The diagnosis / guidance was performed to 52 selected companies for simplified diagnosis and 10 companies are selected as model enterprises among 4 kind of industries of mechanical /electronics, spinning, foods and light industry. Since the investigation of this time is performed to limited numbers of enterprise, it could not say that all problems confronting with small and medium enterprises in city of Hangzhou have been clarified. However, the results are described assuming that a certain trend is indicated. In () shows No. of title of the text

Table I - 8 Problems on management resources of enterprises through diagnosis / guidance of enterprises and supporting by government of them

Items	Present state / problems	Proposal for supporting by government
Management basis	In the enterprise that management capital of employee's portion is large, there is disturbance for improvement of management even in state owned enterprises or in enterprises after fall into private Some enterprises are intending to market, but awareness of managers and middle staffs of many enterprises are low	Perform training to improve awareness of managers and middle staffs Management technologies required to manage enterprise such as management basis, accounting, labor control / sales / materials / procurement shall be included in the training content (5 3 6)
Development of products	Mechanical / electronics field Many enterprises provide own design and development department and performing systematization of characteristic products / correspondence to customer specification, and introducing CAD into design However, some enterprise utilize old design or entrust the evaluation of products to customer or state, and therefore improvement / intensifying of own technology, arrangement of evaluation technology / equipment are required Spinning field 4 of 5 companies provide new commodity development department Almost all company is developing themselves but non-woven fabric is researching with university Light industry Many enterprises provide research and development department and perform development themselves but some of them are entrusted to university / public research agency	Perform new technology training to managers (5 3 6) Arrangement of facility for technology development (5 3 9)
Management technology	1 There is no obligation to submit manufacturing cost details to upper body except foreign capital enterprises In many cases, details of manufacturing cost / detail sales cost are not clear 2 Own position of management / business results among business world is not known 3 There are many points have to improve such as quality control, storage control and production control 4 As for working environment some are excellent but some are doubtful	1 Guide to arrange manufacturing cost details 2 Prepare management index, cost index (5 3 8) 3 Training of general employees, engineers (5 3 6)

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Manufacturing Technology	<p>Many enterprises strive to focus quality and have acquired ISO9000 But impossible realize due to lack of funds and technology</p> <p>Mechanical / electronics enterprises wish to introduce automation / new and powerful facilities</p>	<p>Training for workers and engineers on production control (5 3 6)</p> <p>Training of new technology for managers (5 3 6)</p>
Sales / business	<p>Keyword of "market principle" is used frequently but many enterprises are striving to extend sales network and to increase export Some enterprises perform no marketing caused by lack of information even they wish to increase export (7 8)</p> <p>In companies realizing good business results, the products are in strong competitive position, avoiding price competition, bring up the commodity to the brand, and determine target of market</p> <p>On the other hand many enterprises are exposed in price competition It seems that demand estimation of market and analysis of competitive enterprise are not performed enough including enterprises providing sales plan (2 3 1 1(6))</p>	<p>Provision of information by small and medium enterprise net is proposed Exclusive corner of marketing is provided in this net and inform on opening of exhibition of various commodities, introduction of new products development and lecture of marketing (2 3 1 1(6))</p> <p>Open marketing lecture for small and medium enterprises (2 3 1 1(6))</p> <p>Open sample fair as city of Hangzhou (2 3 1 1(6))</p>
Procurement of materials / parts	<p>Many enterprises are manufacturing the parts by themselves In case of external procurement, most case is procurement in domestic market but some case the products are imported from view point of quality (7 8)</p> <p>Spinning and raw material of fiber / chemicals parts are domestic manufacturing except special articles</p>	<p>It is not desirable to manufacture all parts in own factory It is economical to concentrate manufacturing of suitable products for own factory</p>

(3) Summary of promotion measures

Table I - 9 Summary of promotion measures

	Items	Reasons of selection	Present state / problems	Proposal / purpose and effects
Arrangement of promotion system of small and medium enterprises	Organization	Organization suited to promotion measures is required to promote small and medium enterprises	In the past, measures for small and medium enterprises were controlled classifying ownership of enterprise and industry, and have concerned many administrative organizations of city. As supporting organization for small and medium enterprises the small and medium enterprises department was established and small and medium enterprise service center and technology creation and improvement service center of small and medium enterprises were established under this department. However, regular operation is not expected at the present. Generally speaking, present situation of small and medium enterprises of the city is lack of funds, lack of information, high inferior rate, lack of research and development ability of technology, low working will of employees, and organization of city administration that supports the problems effectively is not arranged yet.	Establish guidance group for promotion of small and medium enterprises managed by vice mayor of Hangzhou and strive to coordinate city policy for promotion of small and medium enterprises. Make clear the roll of small and medium enterprises department and arrange necessary budget and personnel. Budget and personnel shall be arranged in turn to the organization managed by small and medium enterprise department. Strive cooperation with existing organization such as industry and commerce association. Through these measures, promotion policy of city of Hangzhou for small and medium enterprises can be executed synthetically and effectively, and concrete promotion policy can be executed.
	Upbringing of personnel in charge of small and medium enterprise measures	Promotion measures will not succeed even organization is arranged if suitable personnel is absence	City administration / related organization that participate to promotion of small and medium enterprises is lack of personnel, since it is still short period after promotion policy for small and medium enterprises was started.	Training to bring up personnel in charge of measures in city administration (Training by lecture and at site on management of small and medium enterprises). Governmental personnel in charge of measures can perform preparation of appropriate plan and execution of plan.
	Establishment of credit of small and medium enterprises and individuals	It is necessary to provide will to improve by small and medium enterprises themselves	At present there is no honoring system for excellent enterprise in city of Hangzhou.	The honoring of excellent enterprise serve to heighten will of improvement and to promote small and medium enterprises.

Arrangement of management environment	Financing	Small and medium enterprises are in situation that hard to receive financing of bank	(1) There is no specialized bank forming core of loan to small and medium enterprises (2) Industrial financing of small and medium enterprises is not arranged (3) There is no program of favorable loan (4) Credit security body leaded by government is not arranged (5) Definition and scope of small and medium enterprise is not clear	(1) Establishment of specialized bank for small and medium enterprises (2) Arrangement of governmental industry financing for small and medium enterprises (3) Arrangement of credit security company for small and medium enterprises It will become easier of financing of funds required by small and medium enterprises
	Investment funds	Venture enterprise have many problems in present China	In city of Hangzhou, there is enough private funds and high potential of developing ability, so that there are many investment chance (1) In city of Hangzhou, there is funds for high-technology enterprise group at present but funds for technology improvement of enterprises is poor (2) Law system concerned with investment funds is under arrangement at present	(1) (a) Intensify venture supporting function of economical committee (2) Restructuring of cooperation system between industry, university and government (Note 1) (3) Intensify direct finance supporting by small and medium enterprises service center (Note 2) (2)(a) Arrangement of private equity investment market (Note3) (b) Study for establishment of venture capital of limited partner type Procedure of establishment of investment funds / investigation of investment object was provided as pilot project Venture business of city of Hangzhou will be developed and high technology will be introduced to traditional industry
Improvement of management resources	Upbringing of personnel in small and medium enterprises	Most big problem in small and medium enterprises is lack of personnel	Upbringing of personnel and managers of small and medium enterprises have not been performed systematically (Though education committee of labor administration is main body of personnel upbringing, it is functioning not enough due to mismatching to requirement of small and medium enterprises Upbringing of personnel executed by administration is for large enterprises or national enterprises and participation from small and medium enterprises is actually few though it is said that it is opened to small and medium enterprises) Training for employees of small and medium enterprises are conducted through OJT mainly but not effective enough	Training for managers (Learning of management control technology and new technology / new commodity) Training for general employees (Necessary study according to general affair, at site etc) Training for engineers (Study of production control / manufacturing technology) Improvement of management control level, moral up of employees and improvement of technical level of small and medium enterprises are expected

	Upbringing of instructors	It is difficult to provide necessary personnel in small and medium enterprises, so utilization of external instructors is effective	At the present, introduction of system for diagnosticians of small and medium enterprises is progressing in state scientific technology committee. It is very effective itself, but training of diagnosticians requires several years.	For objects of upbringing of diagnosticians of small and medium enterprises, enterprise management and manufacturing of products are proposed. In investigation of this time, diagnosis / guidance was performed successfully, in addition, since small and medium enterprise department of city of Hangzhou, personnel of public cooperation of each industrial field, teachers and students of university participated and experienced to this diagnosis / guidance, it is desirable to perform upbringing of diagnosticians as soon as possible with meaning of continuation. Improvement of management / technology of small and medium enterprises can be expected through upbringing of instructors of small and medium enterprises.
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Improvement of management resources (continued)	Preparation of management / cost index	Effective for management strategy of enterprises / measures of small and medium enterprises	Many small and medium enterprises are planning management strategy without management index and cost index. There is a fear to misjudge problem of enterprise management, and to hinder growth of enterprises. On the other hand, administration cannot seize actual state of management of small and medium enterprises. Consequently, it is in situation that planning of measures for small and medium enterprises and guidance / control for small and medium enterprises cannot perform appropriately.	Summarization and edition of indexes shall be performed by small and medium enterprise department. Each enterprise can seize own position and city of Hangzhou can seize actual state of small and medium enterprises.
	Arrangement of facility for technology development	It is difficult to provide own test and development facility in small and medium enterprises	Since it is difficult that each small and medium enterprise provides all equipment such as measuring instruments, testing machine of physical properties to seize problem of manufacturing place, external common facilities are required. However, these are not arranged and acquisition of data to solve problem is limited. Therefore, it is not in situation to perform technology improvement.	Arrange testing and processing equipment related to metal and dispose operators of measuring and testing equipment through investment of small and medium enterprises. (If necessary, supply subsidy for arrangement of facility by city of Hangzhou)
	Execution of diagnosis of producing place	There is many industries of area concentration type in city of Hangzhou.	Though small and medium enterprise group of area concentration type is a big feature of city of Hangzhou, supporting by administration has not been performed. Now they are at crossroad to correspond to market change.	Perform diagnosis of producing place in order clarify problems and necessary measures for small and medium enterprise group of area concentration type. Through this diagnosis activation of these small and medium enterprise group can be strived.

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	Supporting for extension of utilization of information	Access to market / technology is insufficient	Acquisition of market / technology information is based on personal network mainly and utilization of Internet is insufficient In city of Hangzhou environment of Internet is arranged in central area and others	<p>(1) Maintenance and development of small and medium enterprise network</p> <p>(2) Promotion of utilization of IT in small and medium enterprises</p> <p>(Small and medium enterprise network has been established and operated as pilot project)</p> <p>Access to information of small and medium enterprises become easier and possible to correspond to globalization of international market</p>
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- (Note 1) Restructuring of cooperation system between industry, university and government (the text 4 2 6(3))
 Present coordinators of cooperation between industry, university and government are many divergence in city of Hangzhou It is necessary to intensify function of Hangzhou municipal economical committee and industry, research and university management office, to form "Promotion association for industry, government and university cooperation" by development organization by putting in order these coordinators
- (Note 2) Intensifying of supporting for direct financing by small and medium enterprise service center (the text 4 2 6(4))
 It is desirable to establish investment fund through leading of small and medium enterprise service center
- (注 3) Arrangement of private equity investment market (the text 5 3 4 2).
 Materialization of Chinese NASDAQ is not yet and even it will be materialized it will be "Unattainable object" for ventures of city of Hangzhou because criteria of public offering is very severe Therefore, it is necessary to arrange trading market of not public offered stocks born from "Industrial right trade center in city of Hangzhou"

(4) Budget plan of city administration necessary for promotion measures

It is necessary to secure city administration budget required for promotion measures proposed in (3) in order to correspond as city

Table I - 10 Budget plan of city administration required to promotion measures

Arrangement of promotion system for small and medium enterprises	Expansion of organization	<p>1 Contents of proposal (1) Establishment of guidance group for development of small and medium enterprises (2) Intensifying of function of small and medium enterprise department (3) Intensifying of organization function managed by small and medium enterprise department</p> <p>(1) Establishment of guidance group for development of small and medium enterprises Necessary function are planning of synthetic policy of small and medium enterprises in city of Hangzhou and maintenance of cooperation system with related organizations</p> <p>(2) Intensifying of function of small and medium enterprise department Necessary function are (a) Planning of undertaking for supporting small and medium enterprises (b) Guidance for execution of undertaking of lower organization (c) Management for execution of undertaking (d) Establishment of cooperation system with industry and commerce association Necessary organizations are (a) Measures for small and medium enterprises (b) Technology development, facility investment (c) Training of management (d) Consulting on management (e) Collection of information (f) Promotion of manufacturing technology</p> <p>(3) Intensifying of organization function managed by small and medium enterprise department</p> <p>1) Small and medium enterprise service center Direct supporting are (a) Participation to incubator capital of enterprise in high-technology development area (b) Establishment of venture investment company (c) Recommendation of enterprises to stock trade market for venture enterprises Intermediation supporting are (a) Credit security center for small and medium enterprises (b) Industry right center (c) Consulting of enterprises at small and medium enterprise association (d) Configuration of technology data bank (e) Configuration of information network of small and medium enterprises (f) Configuration of upbringing base of managers</p> <p>2) Technology creation and improvement service center of small and medium enterprises (a) Management office performs administration office work and management of small and medium enterprise network (b) Financial affair performs financial accounting, preparation and operation of investment funds (c) Consulting department performs information management and provision of consulting service (d) Communication department performs operation of cooperation system with outside and management of personnel dispatching (e) Research and development department performs transfer of scientific technology / investment / collection of problems on enterprises and intermediation to research agency</p> <p>2 Expenditure Minimum required personnel of small and medium enterprise department is 9 (45 persons at present) and minimum required personnel of lower organization of small and medium enterprise department is 30 (11 persons at present) total 39persons, 0.1 million Yuan per man-year, total 3.9 million Yuan</p>	<p>Total 3.9 million Yuan (increased portion is 23 persons) (If there is temporary transfer from private company, this amount will be reduced)</p>
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Arrangement of promotion system for small and medium enterprises (continued)	Upbringing of personnel in charge of measures	<p>1 Contents of proposal Perform training to bring up personnel in charge of measures in city administration</p> <p>(1) Trainees For the time, 35 persons of small and medium enterprise department, small and medium enterprise service center, technology creation and improvement service center of small and medium enterprises and 40 persons of concerned with economical committee</p> <p>(2) Training items Following items will be performed for inexperienced persons Lectures (a) Policy and system of small and medium enterprises (2 days) (b) Concerned matters with management basis (1 day) (c) Concerned matters with management (3 days) (d) Concerned matters with information (1 day) (e) Concerned matters with technology (1 day) (f) Concerned matters with funds (1 day) In addition training at site is performed</p> <p>(3) 12 days per 1 training, 4 classes with 10 persons per 1 class, then total 48 days</p> <p>(4) Trainers are teachers of university, managers of enterprise (including foreign enterprise advancing in Hangzhou)</p> <p>2 Expenditure Training fee 1000 Yuan per day, 48000 Yuan in total</p> <p>3 Perform lecture for experienced persons twice per year (1 day per 1 time)</p>	48000 Yuan (This amount will reduce from next year since participants will reduce)
	Establishment of credit of small and medium enterprises and individuals	<p>Honor the suitable one among the following enterprises by manager of small and medium enterprise department, chief of economical committee or mayor corresponding to service of honored enterprise</p> <p>In addition, examples of honored enterprise suitable to model of management improvement are summarized and popularized</p> <ul style="list-style-type: none"> • Enterprise achieved good business result during predetermined period continuously • Improve the management remarkably by positive utilization of measures such as upbringing of personnel and information revolution • Enterprise that strived model improvement for other enterprises on production or sales (model enterprise) • Instructors attribute remarkably on popularization and execution of measures • 	Very little
Arrangement of management environment	Financing	<p>1 Proposed items (1) Establishment of governmental specialized bank (2) Arrangement of industrial financing for small and medium enterprises (3) Arrangement of credit security company (4) Upbringing of personnel concerned with finance</p> <p>2 Expenditure Credit security company provides capital of 5 hundred million Yuan and government pays more than half</p>	Expenditure of min 2.5 million Yuan
	Investment funds	<p>1 Proposed items (1) Arrangement of private equity investment market (2) Establishment of venture capital of limited partner type (LPS) (3) Upbringing of personnel for investment funds</p> <p>2 Expenditure In preparation phase of LPS, city administration invest 2 million Yuan that is 20% of 10 million Yuan of management company's capital via small and medium enterprise service center When full-scale company will be established, investment of city administration will be necessary according to the scale and investment portion</p>	For the time, expenditure of 2 million Yuan to management company
Improvement of management resources	Upbringing of personnel of small and medium enterprises	<p>1 Contents of proposal Training of managers, general employees and engineers of small and medium enterprises</p> <p>(1) Training for managers on related matters of management control and new knowledge correspond to globalization of market is necessary One day each for management basis, finance, labor, sales, material / procurement</p> <p>(2) Training for general employees is performed according to field in charge Two days each for general affair (accounting, labor), sales (market estimation, preparation of sales plan), production site (production control)</p> <p>(3) Training for engineers (10 days for production control mainly and 5 days for specialized technology)</p> <p>2 Expenditure In total 30 days per once and 60 day-men if perform training twice per year Total 90000 Yuan if instructor fee is 1500 Yuan per day As a rule training fee shall be born by trainees and if half of fee is assisted by city administration for trainees who take lecture more than 80% and accepted in examination (assumed as 30%), expenditure of city administration will be about 14000 Yuan</p>	Subsidy of half lecture fee is 14000Yuan

Improvement of management resources	Upbringing of instructors	<p>1 Contents of proposal Upbringing of inexperienced instructors</p> <p>(1) First step of enterprise management training (finance control, storage control, progress control, quality control) 3 months of lecture and 3 months training at site once per year</p> <p>(2) Second step of enterprise management training (labor control, materials and procurement control, sales control, production control, information control) after second year</p> <p>(3) Training of manufacturing required 1700-5600 Yuan as facility fee according to level Performed after third year</p> <p>2 Expenditure Instructor fee is $8 \times 1500 \times 6 = 72,000$ Yuan if 3 instructors for lecture and 3 instructors for site training and mean monthly compensation is 1500 Yuan In addition various fee such as teaching material is necessary Taking lecture fee of training of high grade industry and commerce management course (60 days per year) performed by Zhejiang university management department is 200 Yuan per day, and if the same condition is applied taking lecture fee is $200 \times 180 \times 60 = 2160000$ Yuan Since ment of instructors is not clear for public initially, there is high possibility that all trainees are concerned persons with government (including commerce and industry association) In Japan 90% of trainees were concerned persons with government initially</p> <p>3 For experienced instructors, training is performed twice per year (1 day per once) in order to maintain and improve ability</p>	2 16 million Yuan If all trainees are concerned persons of government initially
	Improvement of management resources (continued)	Preparation of management / cost index	<p>1 Contents of proposal Prepare management / cost index of small and medium enterprises, indicate to management guideline to managers of small and medium enterprises and indicate basic data of planning for small and medium enterprises to city administration</p> <p>(1) Investigate actual state of management of main industry of city</p> <p>(2) Among main industry in city, at least for main upbringing industries, prepare and issue regularly the cost index summarized various ratio such as B/S and manufacturing cost index summarized composition ratio of each item of manufacturing cost</p> <p>2 Expenditure Initially 3 men- month are assumed to prepare, mail and recover (including telephone, visiting) the questionnaires to 300 companies, count and prepare the index as pretest When objects are extended to 2500 companies with certain scale in city of Hangzhou from next year it is assumed 18 men-month is necessary</p>
Arrangement of facility for technical development		<p>1 Contents of proposal Arrangement of technical development facility of small and medium enterprises</p> <p>(1) Install testing / research and development facility for mechanical enterprise (including metal mold), electric / electronics enterprise, light industry and arrange (a) Measuring / testing equipment (b) Designing facility (c) Processing experimental equipment</p> <p>2 Expenditure 20 million Yuan for facility such as machinery and building Operator is 11 persons including president (13200 Yuan if monthly labor cost is 1000 Yuan)</p> <p>3 Management It is assumed to operate as Co Ltd 1/3 of funds (about 0.6 million Yuan) are invested by government and 100% of facility is invested by government</p> <p>4 This plan is required adjustment between related body and necessary to continue studying</p>	20 million Yuan of facility cost and 0.2 million Yuan of investment to company
Execution of diagnosis of producing place		<p>1 Contents of proposal Perform producing place diagnosis for industry group of area concentrating type (perform to ball pen factory group as initial case)</p> <p>2 Expenditure Each specialist of management finance / manufacturing technology / management shall engage 1 year (12 months) If it is entrusted outside with 20000 Yuan per month it takes 0.72 million Yuan If city administration bears 1/3, portion of city administration is 0.24 million Yuan</p>	0.24 million Yuan
Utilization of information		<p>1 Contents of proposal For maintenance and development of small and medium enterprise network it is necessary to take measure for lack of server capacity, measure to prevent entrance of hacker, arrangement of facility for PR (note type PC and projector) on devices installed as pilot project</p> <p>2 Expenditure About 0.17 million Yuan is necessary for maintenance and development Besides 37500 Yuan is required to usual operation and if new content will be started that cost is added</p>	0.17 million Yuan for maintenance and 37500 Yuan for operation

Chapter 5 Summary of the individual countermeasures for the promotion

(Main text: 5.3 Countermeasures for the promotion)

The countermeasures for the promotion are summarized as follows:

(1) Establishment of an organization to promote SMEs (Main text: 5.3.1 Establishment of an organization to support SMEs)

1) Status-quo and issues of the organization to promote SMEs in Hangzhou

SMEs in Hangzhou lack human resources necessary to the management of business, and have difficulties in making up the lack in terms of fund and in obtaining information. In order to dissolve the problem, supports by the public institutions are necessary. The organization of Hangzhou Municipal Government and the organization of SMEs are described in the Appendix II -3(5)(6). Many organizations are participating in order to respond to the supportive countermeasures required by the SMEs. The Department of Small and Medium Enterprises and the related organizations are not in the position to uniformly grasp the actual conditions of SMEs, plan and draft the SMEs policies, in the stages where the SMEs are to be expanded from now on.

The expansion of the measures to promote SMEs is considered to be required by each sector in the future, and in order to meet those requirements, the following measures should be expedited: ① to establish an organization to secure the consistency of the policy to assist SMEs in the Hangzhou Municipal Government, ② to strengthen the function of the Department of Small and Medium Enterprises, and ③ to establish the related organizations under the control of the Department of Small and Medium Enterprises.

2) Suggestions

- a) We suggest to newly establish the “Small and Medium Enterprises Development Leading Group” (tentative name) as a permanent superstructure of the Commissions related to the promotion of SMEs. The composition of this Small and Medium Enterprises Development Leading Group is considered to be as shown below. As the head of the Group, one person shall be selected from among the Vice Mayors (the Vice Mayor concurrently in the charge the Economical Commission and Science and Technology Commission will be suitable), and as the deputy head of the Group, one person shall be appointed

from among the Secretaries General of the Municipal Government. As the members of the Group, the leaders of the following organizations shall be appointed: the Municipal Economical Commission, Science and Technology Commission, Township Enterprises Administration, Industry Development Commission, Economy Development District Commission, Foreign Economy and Trade Commission, Industrial and Commercial Administrations Control Bureau, Administration of Finance, Administration of Taxation, Administration of Environmental Protection, Administration of Quality and Technology Control, Administration of Land Control, Administration of Residences Control, Administration of Statistics, Hangzhou Municipal Center Branch of People's Bank, etc. This Group will mainly coordinate the measures to support SMEs in the each division of the Municipal Government in order to provide quick and precise supports to promote SMEs in Hangzhou, and it is considered to be necessary to establish an organization to conduct its daily clerical works in the Economical Commission.

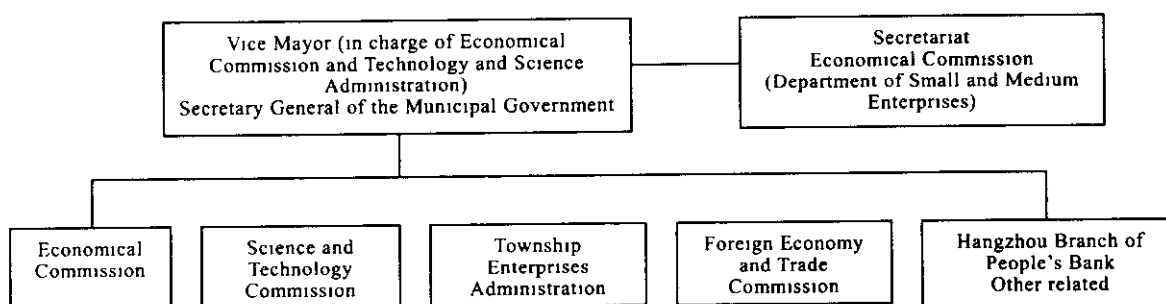


Figure I-6 Proposed organization of Small and Medium Development Leading Group

- b) Expansion of the Department of Small and Medium Enterprises: The Department of Small and Medium Enterprises shall entrust the related organizations with the practical works, and as its own role, shall implement: ① the planning and drafting of the undertakings to support SMEs, ② guidance for the implementation of the undertakings by the substructures, ③ management of the situations of the execution of the undertaking, and ④ establishment of the system to cooperate with the Federation of Industry and Commerce. It will necessitate to have the divisions to take charge of ① the measures for SMEs, ② technology development and investment in the equipment, ③ training on the management, ④ management consultation, ⑤ collection of information, and ⑥ promotion of production technologies.
- c) Expansion of the related organizations: The Small and Medium Enterprises Service Center, Technology Creation Promotion Center, and New Technology

Advice Center have been established under the control of the Department of Small and Medium Enterprises. There has been so far no hope of establishing the Small and Medium Enterprises Mortgage Center, Small and Medium Enterprises Human Resources Exchange Center, and Small and Medium Enterprises Consulting Center, all of which were initially planned to be established. Since these organizations are necessary and effective as the measures to support SMEs, it is necessary to urgently endeavor to realize the same. And thereby, the service system placing the Small and Medium Enterprises Service Center at its core should be built up.

- d) Expansion of the function of the Federation of Industry and Commerce. The organizational ability and services of this organization are in the conditions not inferior to the Commercial and Industrial Associations and Chamber of Commerce and Industry in Japan. We consider that it is important to make the most of this organization

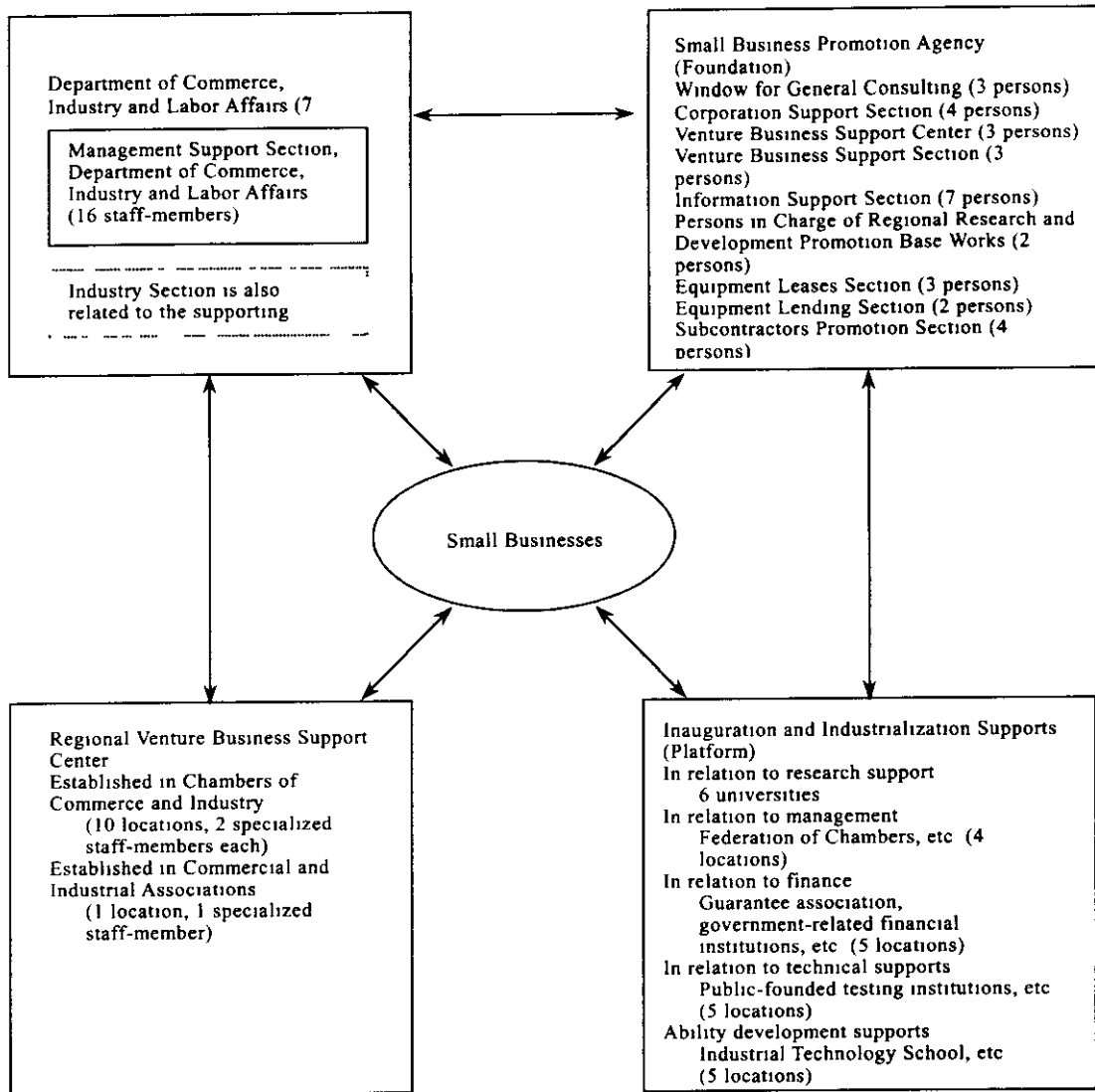


Figure I-7 Example of diagnosis and guidance network of local public entities in Japan (approx. 2 million persons)

(2) Rearing of persons in charge of measures to promote SMEs
(Main text: 5.3.2 Rearing of persons in charge of measures to promote SMEs)

1) Status-quo and issues regarding the persons in charge of the measures to promote SMEs

In China, the economy is shifting from the socialistic planned economy to the socialistic market economy, and the policy to promote SMEs is going to be strengthened. For this reason, the Department of Small and Medium Enterprise and other related organizations have been established in the Hangzhou Municipal Government. Currently, the staff-members working in these organizations are not sufficient in terms of numbers and have not received the training related to the promotion of SMEs. On the other hand, the staff-members working in the financial institutions and investment foundation also do not have sufficient experiences regarding the transfer to the market economy and financing of and investment in the SMEs. It is necessary to expand the organizations as well as to advance the abilities of the persons in charge of the measures for SMEs (the Municipal Government and related organizations, financial institutions and investment foundations). However fine systems or organizations were built up, they would not only make no sense but also allow uselessly strengthening the regulatory aspects and having negative effect unless they have the right men in the right posts.

2) Contents of the rearing of talented persons

① Persons in charge of the measures for SMEs

Trainees: Staff-members working in the Department of Small and Medium Enterprises and the organizations under its control

Purpose: Trainees will learn about the grasp of actual conditions of SMEs and drafting and implementation of the precise measures for supporting based on the grasp. In addition to this training by lecture, they will undergo training with regard to the grasp of the status-quo and picking out of problems at the work sites

Contents: The management basics, management control, collection and analysis of information, fund raising and management, and outline of production technologies, etc. of SMEs.

Training courses

- For persons who have experiences in practical work

Training by lecture: 2 times a year (one day per time)

- For those who do not have experiences:

Training by lecture: The SMEs policy and system (2 days), Related to

management basics (one day), Related to control (3 days), Related to information (one day), Related to technology (one day), Related to fund (one day) (6 hours a day)

Work site 2 times a year

② Persons in charge of financial institutions and investment foundations

Purpose Acquisition of concrete practical works

(It is necessary to secure, in these institutions, the talented persons to respond the transfer from the socialistic planned economy to the market economy and the new measures to promote SMEs.)

Contents The assessment of the entities to be financed or invested in, etc.

Training Training in overseas countries is desirable. One month in a year.

3) Implementing organization

The Department of Propaganda and Education of Hangzhou Municipal Economic Commission shall implement the training programs externally entrusting universities, etc. Assistance by the private corporations will be effective.

4) As for the implementation schedule, it is necessary to implement it urgently, and at latest, it needs to start within one year.

5) Economic benefits

Although the training fees shall be borne by the Government, it is indispensable in order to carry out the effective policies for SMEs.

(3) Proposal for the foundation of credit of SMEs and individuals in SMEs (Regarding the establishment of the commendation system for the excellent enterprises, etc.)

(Main text: 5.3.3 Proposal for the foundation of credit of SMEs and individuals in SMEs (Regarding the establishment of the commendation system for the excellent enterprises, etc.))

During the Third On-site Research, we were requested to add the “Proposal for the foundation of credit of SMEs and individuals in SMEs”, and we herein introduce the “Establishment of the commendation system for the excellent enterprises, etc.” in Japan. In China, there are systems to announce bad enterprises, not to mention to the commendation of excellent enterprises, but in Japan there is no such system.

- 1) Regarding the establishment of the commendations system for the excellent enterprises
 - a) Background and reasons

The measures to promote SMEs have just been started, and there is no commendation system for excellent enterprises. However, in order to disseminate the various measures to be deployed from now on and advance their effects, it is necessary to establish the commendation system for the enterprises which achieve a remarkable result in the improvement of the management through the utilization of the measures for SMEs and leading persons who remarkably contribute to the dissemination and implementations of the measures.
 - b) Purpose

By commending the excellent enterprises, the will to improve the management of SMEs shall be awakened.

By commending the persons who remarkably contributed to the dissemination and implementation of the measures for SMEs, the positive activities of the related persons shall be encouraged
 - c) Expected effects

Effective dissemination and promotion of the measures for SMEs.

Further development of the commended enterprises by the improvement of their images by the commendation

Promotion of SMEs by the dissemination of the example cases of the management improvement
 - d) Contents

Of the enterprises listed below, commendations will be endowed, in accordance with the extent of achievement, by the Director of Department of Small and

Medium Enterprises, Chief Officer of the Economical Commission, Mayor, etc
Also, the example case suitable to model management improvement among those of the commended enterprises shall be compiled together and disseminated

- An enterprise that achieved excellent performance results consecutively for a certain period.
- An enterprise which positively utilized the measures of rearing talented persons, computerization, etc. and achieved remarkable improvement of the management
- An enterprise which achieved an improvement with regard to its production, sales, etc. that can be a model to the other enterprises (model enterprise).
- A leading person, etc. who remarkably contributed to the dissemination and implementation of the measures.

- e) Major implementing organizations and other related organizations involved in the selection of the enterprises and persons to be commended

The Hangzhou Municipal Economical Commission and Department of Small and Medium Enterprises shall carry out the activities obtaining the cooperation of the Small and Medium Enterprises Service Center, Federation of Industry and Commerce, industrial associations, etc.

- f) Implementation schedule

First year. The members of the selection committee shall be elected, and the committee shall deliberate the matters to be commended, criteria of selection, etc.

In and after the second year: Implementation of commendations

In and after the third year: Dissemination of the model example cases

- g) Economic benefits

In addition to the expenses for the meeting of the selection committee, printing expenses for the certificate of commendation, etc., the expenses of the supplementary prize (memento) will be necessary if it is to be awarded. For the compilation of the model example case, the expenses of research, gratuity for the researchers, etc. will be necessary.

- h) Points to be noted

In selecting the model example case, the enterprises that can accept the inspection by the other enterprises are desirable. Also, the cooperation of the specialists who can judge the suitability as models will be indispensable.

2) Experiences of Japan

In Japan, many commendations at various levels in accordance with the extent of contribution of the commended entities for each of various measures have been

implemented.

(Regarding the undertakings related to the Japan Small and Medium Enterprise Corporation)

- a) In order to advance the structure of the SMEs, the industrial associations, the officers and employees of the associations, which implemented an undertaking for the collectivization of plants, etc. and achieved excellent results are commended in accordance with the extent of their achievements by the Director of the Federation of Industrial Parks Associations, Chief Director of Japan Small and Medium Enterprise Corporation, Minister of Small and Medium Enterprises Agency or Minister of Economy and Industries.
- b) The organizations and the employees of the organizations which cooperated for the dissemination of the mutual-aid programs of small enterprises and for the promotion of the participation are commended in accordance with the extent of their cooperation by the Chief Director of Japan Small and Medium Enterprise Corporation, or the Minister of Small and Medium Enterprises Agency.
- c) The enterprises that positively utilized the training programs of the Institute for Small Business Management and Technology, and endeavored for the rearing of the talented persons in the enterprise are commended by the President of the Institute for Small Business Management and Technology. In addition, the instructors who positively cooperated for the training programs are presented certificates of appreciation.

(4) SMEs financing

(Main text: 4.1 Status-quo of the SMEs financing, 5.3.4 SMEs financing)

a) Status-quo

i) Hangzhou is the only capital of province in which all of the 10 nationwide-scale joint-stock-incorporated banks have a branch, and four other state-owned commercial banks have also operates their branches in the city. Adding to these the Hangzhou Municipal Commercial Bank, which is a regional commercial bank (joint stock-incorporated), there are 15 banks in total in the city. In other words, the finance in Hangzhou has been relatively well developed, and therefore, it can be said that the enterprises in the city are in an extremely blessed environment in the aspect of the financial organization.

However, because of the facts that the concept of “small and medium enterprise” is comparatively new, there exists no government-related financial institution specialized in the lending to SMEs, and the finance for SMEs -- lending of fund which requires a long term for the recovery such as fund for the equipment -- has not sufficiently been established, they are currently in a financial situation far away from that for the promotion of SMEs.

ii) In order to cooperate for the policy to promote SMEs of the Government and People’s Bank, the commercial banks, in particular the joint-stock-incorporated commercial banks are using their efforts exclusively for the lending to SMEs, but mainly because of the lack in capacity and strength of the commercial banks and lack of credit power and mortgage of the SMEs, there are no more practiced than the commercial finances -- the lending of funds which can be recovered in the shot term such as the operating fund. (Some of the commercial banks allow the same short-term lending as for the commercial finance because of the lack in the credit power of the borrowing enterprise even if the usage of the fund is to purchase the equipment.)

iii) For the purpose of complementing the lack in the credit power and lack in mortgage of SMEs, eight credit mortgage companies are carrying on business in the city, but because all of them have only a short history after the inauguration, and also because the responsibility of the Government is not clear, these companies have not obtained the reliance of the banks who are the users of them.

b) Issues

i) There exists no specialized bank, which is to be the core of the lending to SMEs.

ii) The industrial finance for SMEs has not been well established.

iii) There exists no preferential lending program (at a low interest and allowing a long-term repayment) which is indispensable to the promotion of the industries.

- iv) The government-led credit guarantee organization to lighten the risk of the lending to SMEs has not been well established in the financial institutions.
- v) Since there is no integrity in the way of thinking and treating of the financing institutions with regard to the “definition and scope of a SME”, the SMEs, which should be financially supported, are not clear

c) Suggestion

In consideration of the above-mentioned status-quo and issues, we have worked out the financial system to support the SMEs in Hangzhou in the financial aspect (a draft plan) as shown in the figure. The essentials of the system are as follows:

c-1) The industrial finance to assist SMEs should be well established.

- i) Hangzhou Municipal Commercial Bank should be reorganized into a bank specialized in SMEs. The government should positively support the bank, and concrete managements should be commercialized
- ii) The government should perform the industrial finance for SMEs through this bank, and admit the preferential lending condition (a low interest, long term loan). The government should offer the bank necessary funds for this system. This loan condition should be the basic loan condition.
- iii) The SME which can borrow a fund from the said bank on the standard lending conditions shall be defined from the aspect of policy. And, for the SME in a specific field, which is admitted to be in need of a further preferential treatment, further preferential lending conditions shall be established.
- iv) The method of how to secure the resources for lending of the said bank shall be clarified.
 - Borrowing from the People’s Bank, own fund raising, deposition by the Government, etc

c-2) The credit mortgage system to complement the lack in credit and mortgage of SMEs should be well established so that the commercial bank may lend more funds to SMEs, while letting the commercial bank perform the commercial finance (lending of operational funds) for the SMEs as has been performed thus far.

- i) The system of reinsurance by the Government shall be introduced.
- ii) The Municipal Government-led business corporation shall be newly established to perform the reinsurance business. It may be done instead by making the most of the existing “Small and Medium Enterprises Service

Center” without newly establishing a business corporation.

- iii) The existing credit mortgage companies shall be let participate in the above-mentioned business corporation (those, which will be established in the future, may participate in it). The method of participation may be either contribution or payment of participation fee, but the rate of contribution by the Government should always occupy the majority.
- iv) At the same time as the establishment of the credit mortgage system in which the responsibility of the Municipal Government is clarified, the current conditions of accepting the credit mortgage need to be reviewed, and such measures as the expansion of the credit mortgage companies (increase in capital, strengthening of the staff, advancement of examination ability, etc.) and reduction of guarantee fees, bearing of a part of risk by banks, etc. shall be taken.

Fund for the equipment — Industrial finance — Lending service of the government-related bank

Measures

① Establishment of the government-related bank specializing in the finance for SMEs — The expansive reorganization of Hangzhou Municipal Commercial Bank

② Authorization of the preferential lending conditions (at low interest and allowing long-term repayment)

Standard conditions:

Lending ratio: Within 70% of the total of necessary funds (own fund of the enterprise, 30% or more)

Interest: 5% level regardless of the financial circumstances (fixed)

Term: 5 years or more (including term of deferment)

Mortgage: Equipment to be newly introduced and joint and several liability on guarantee by the enterprise manager

③ Decision of the enterprise to be lent and lending conditions — Establishment of the conditions further more preferential than the standard conditions (e.g. for the modernization of the equipment, strengthening of the production capacity, in connection to the protection of the environment, labor-intensive-type enterprise, etc.)

④ Deliberation of the method of lending — Introduction of proxy lending leases of the equipment

⑤ Deliberation of the method of securing the resources for lending — Borrowing from the People's Bank, own fund raising, deposition of the governmental fund, etc.

Operating fund — Commercial finance — Utilization of commercial banks

Measures

Establishment of the credit mortgage system

① Introduction of the system of reinsurance by the Municipal Government — reinsurance of 70 to 80%

② Establishment or expansion of the Municipal Government-led business corporation

③ Contribution to or participation in the business corporation by the existing credit mortgage companies — Establishment of the joint and several liability system

④ Lightening of the conditions of accepting the credit mortgage, bearing of a part of risk by banks, etc.

Figure I-8 Financial support system for SME promotion in Hangzhou (a draft plan)

(5) Investment foundation

(Main text: 4.2 Status-quo and development of risk investment foundation, 5.3.5 Investment foundation)

a) Venture businesses and venture investment businesses in the groping years

As of the end of 2000, there were about 100 venture investment foundations (excluding those financed with foreign funds) in the entire China and the total amount of their registered capitals reached about 9.3 billion Yuan, 80% of the foundations having been established in and after 1998. In the background of this venture capital establishment boom, there seems to have been such factors as: ① The “Policy to found the state by science and technology” and policy to advance industries which have been positively promoted by the Government of China in the recent years, ② the stimulation by the venture business power represented by Silicone Valley in the United States, and ③ the promotion of the securities market for venture businesses by the Government of China. Since Hangzhou is in the center of Zhejiang Province in which the penetration of the mechanism of the market economy is proceeding deeper than any other regions in China, and also has the social climate of the high business mind since the olden times, a remarkable degree of development of venture business is seen there. Compared with the demands for the funds by the venture businesses in this region, the city is in such a situation that we cannot help saying that its fund supply ability is too little.

We decided to classify the venture businesses into five types according to their natures and each type seems to represent those seen in the entire state.

Type 1 is the group of high-tech enterprises such as IT industries and biotechnology businesses.

Type 2 is, so to speak, of the “technology improvement- and system renovation-type”.

Type 3 resembles the Type 2 in some aspects, but is the group of private-managed enterprises including the previous township enterprises.

Type 4 is the group of “joint ventures” participated in by the overseas corporations

Type 5 is the group of ventures businesses operated by the persons who returned from overseas studies.

b) Investment environment and issues of venture businesses

1) Issues in the aspect of the basic legislative system

Laws concerning the venture investment are currently being devised at the state level, and there exist no regulations to prescribe the concrete matters so far.

Also there is a lack in various rules and regulations related to the “protection of intellectual property rights”, “assessment of technological results”, “provisions

on the scope of business of the venture capital and preferential taxation system”, “scope of liability of the investment management companies and protection of interests of investors”, “introduction of the qualification system for the venture capital list”, “prioritized stocks”, “non-par value stocks”, etc. Therefore, the operations of the venture investment businesses cannot help depending on the diversified laws and regulations, and as a result, even one arrangement contract is affected by a number of laws and regulations and take the stance of mutual complement by entering into the package contract (entering into a multiple number of contracts at one time).

2) Issues in the aspect of business operation

First are the restrictions in the aspect of the fund raising by venture capitals. Second is the mismatching in the aspect of information and needs between venture businesses and venture capitals.

Third is that the businesses lack in the expansibility, flexibility and efficiency because the government-leading coloring is rather dense.

3) Issues in the aspect of market

The stock market in China has achieved a rapid development during the past several decades and about 1,200 enterprises have realized IPO. However, the stock market for venture businesses has not started to work yet (although the state government expressed its intention to establish sooner or later “Inauguration Board (a stock market for venture businesses)” in Shenzhen). On the other hand, although the main exit for the venture investment funds is the securities market, the investment recovery expectation excessively relying upon the stock market cannot be said to be realistic in the present China, and it will be necessary to give pluralistic considerations to the private equity and investment recovery by the M&A method. To that end, the establishment of the market for the private equity and M&A will be important.

4) Lack in experiences

The experiences to catch up the rapid development are lacking, and also the human resources are lacking.

c) Suggestions on the direction of promotion

1) Components forming the venture world

The venture world consists of the components as shown in the figure below.

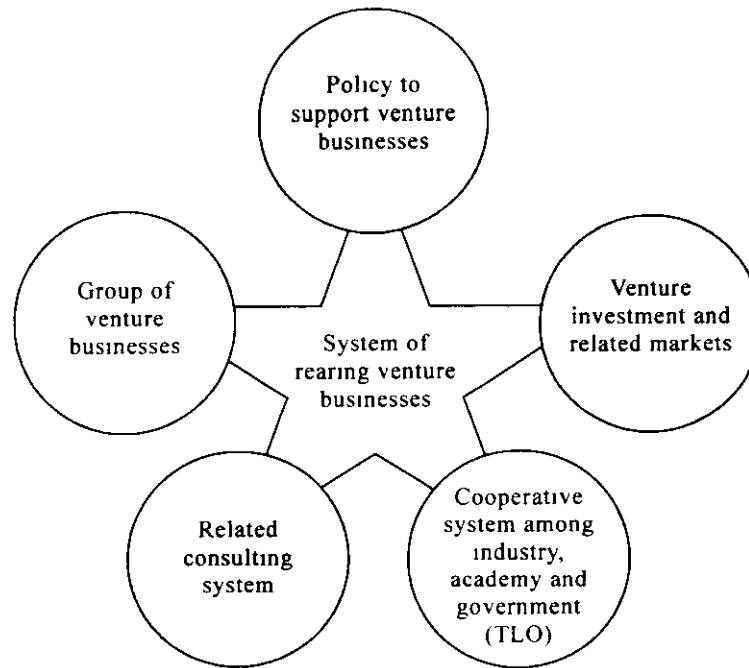


Figure I-9 Components forming the venture world

In the case of Hangzhou, the components in the above figure are already showing themselves almost spontaneously, and from now on, it will be necessary to work out more advanced and strategic scenario or realize the collaboration among the components in the above figure.

- 2) The function of the Economical Commission to support venture businesses should be strengthened.

The rearing of venture businesses intensively tends to be overemphasized, but the high-tech venture businesses form only one of the five types of venture businesses existing in Hangzhou. It has been found through the on-site research that the rearing of the venture businesses that will lead to the advancement of conventional industries is also important, and therefore, the function to support venture businesses by not only the Science and Technology Commission but also the Economical Commission should be further strengthened. Naturally enough, it is important to strengthen the foundations of the “Hangzhou Municipal Small and Medium Enterprises Service Center” and “Hangzhou Municipal Industrial Properties Transaction Center” which are the major outer organizations of the Economical Commission, through such measures as the increases in budgets, reinforcement of organization and deregulation with regard to those organizations.

- 3) The restructuring of the collaborative system among industry, academy and government is necessary.

Currently, the industry-academy-government coordinators in Hangzhou are diversified among the “Hangzhou Municipal Technology Development Institute (established in the Department of Science and Technology of Economical Commission)”, “Hangzhou Product Education Research Institute of Economical Commission”, “Productive Forces Improvement Center of Hangzhou Science Committee”, “Zhejiang Hangjiahu Technology Development Co., Ltd.”, “institutes and individuals in each university”, etc.

Through the research at this time, we fully realized that in order to efficiently deploy the industry-academy-government collaborative works in Hangzhou, it is necessary to restructure the mutual collaborative system through the rearrangement and reorganization of each organization. It is necessary for the Economical Commission, Science and Technology Commission, Education Board, and universities to jointly address the issue of rearrangement and restructuring of the organizations. The direction of the rearrangement and restructuring should be decided taking the following choices into consideration.

- a. Reinforcement of the function of the Hangzhou Product Education Research Institute of Economical Commission (TLO Secretariat);
- b. Formation of “Industry-academy-government Community” (TLO) by the Hangzhou Municipal Economical Commission, Hangzhou Municipal Science and Technology Commission, universities in Hangzhou, Zhejiang Hangjiahu Technology Development Co., Ltd., Hangzhou Municipal Small and Medium Enterprises Service Center, and Zhejiang Patent Office; and
- c. Establishment of the permanent “Place of Encounters” in the industry-academy-government collaboration

4) Strengthening of the direct financial support by the Small and Medium Enterprises Service Center

Taking the industrial property and level of Hangzhou into consideration, it seems effective and realistic to establish an investment foundation in the Small and Medium Enterprises Service Center and strengthen the supporting function through the direct financing. Currently, there are four major venture investment companies in Hangzhou and they adopt a management method affiliated with the Science and Technology Commission or of an all company-type (the method to make the capital of the company the original investment fund). The total amount of the capitals of the four companies remains at the level of about 600 million Yuan (around one third of the capital of one higher-ranked investment company in Shenzhen), and is correlatively too little compared to the affluent private sector fund in Hangzhou and the status-quo that the total GDP of the city is ranked at the second position among all the provincial capital cities in the state. In order to improve this situation, it is considered to be effective to establish the operational method by the limited partner system (the investment association system).

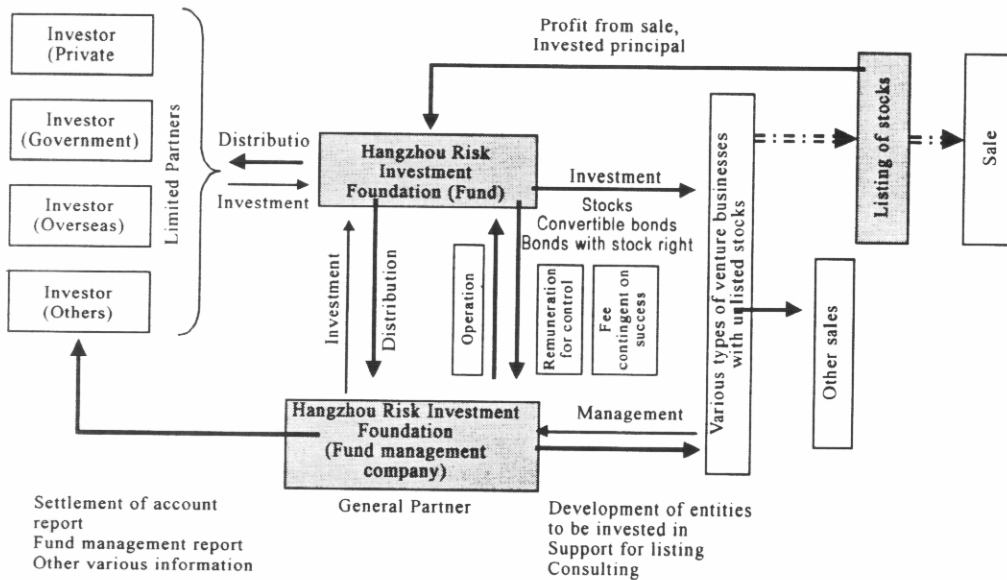


Figure I-10 Image of business operation of LPS

(6) Rearing of talented persons in SMEs
(Main text: 5.3.6 Rearing of talented persons in SMEs)

1) Status-quo and issues

The most serious problem that SMEs in Hangzhou is worrying about is the lack in human resources, and the result of the questionnaire shows that they are in need of “persons who have management ability”, “persons who have sales and marketing ability” and “persons who have manufacturing skill”.

In Hangzhou, the training of the managing officials and employees of large corporations is conducted to a considerable extent, but that of the persons related to SMEs is rarely seen. Also, there are a substantial number of human resources training institutions in Hangzhou, but these are apt not to meet the needs of SMEs.

2) Contents of the rearing of talented persons

① Training of managers of SMEs

Trainees:	Managers and senior officers of SMEs
Purpose:	The contents of the training of managers need to include, in order to modernize the enterprise responding to the globalizing market, a. training related to the management control, and b. training on the new knowledge
Contents:	Management basics, finance, labor management, sales, materials and purchasing with regard to the management
Training courses:	Around six hours for one course with regard to the training on the management control. The leading-edge technologies, etc shall be introduced through seminars, etc. in the training on the new knowledge.

② Training of general employees:

Trainees	Different training corresponding to the duties is necessary for each group of persons related to general affairs, sales, technicians, site workers, and on-site leaders.
In charge of general affairs:	Accounting- and labor management-related training
In charge of sales:	Market forecast, and working out of sales plans
Site workers	Production control
Training courses	Two days for each theme (six hours per day)

- ③ Technicians: Training on production control shall be mainly given.
- Trainees: Technicians involved in the development and production
- Purpose: Advancement of technologies, acquisition of related technologies, production control technologies
- Contents: Advancement of technologies, acquisition of related technologies, production control technologies
- Training courses: Production control (Process control, materials control, outsourcing control, quality control, safety and hygiene control)
- Specialized technical training shall take five days for one time including practical exercises. Training on production control shall take two days for each theme, but five days including practical exercises of quality control.

3) Implementing organizations

Training of managers and general employees shall be conducted mainly by the Small and Medium Enterprises Technology Creation Promotion Center placed at the core, by utilizing the Center's network (Collaborating and cooperating companies, Wanxian control information network, Duanqi Control information, etc.) and obtaining the cooperation of the Federation of Industry and Commerce and Township Enterprises Administration, widely calling for the participation. Training for technicians shall be conducted mainly by Administration of Labor, obtaining the cooperation of the Federation of Industry and Commerce and Township Enterprises Administration.

4) Implementation schedule

The schedule shall be conferred with each related organization in one year, and the training shall be conducted from the second year.

5) Economic benefits

Most training subjects will depend on the external instructors (teachers of universities, specialists in the domestic private sector and specialists in foreign countries). The fee for a domestic lecturer will be about 1,000 Yuan per day. For technical training, the utilization of training institutes and corporations operating in Hangzhou (foreign capitals, etc.) can be considered.

In principle, the training fees shall be borne by each SME concerned, but when 80% of training is received and the trainee passes the examination, the subsidy of 50% of the training fee can be considered.

The rearing of talented persons in SMEs will lead to the development of the enterprise concerned and contribute to the economy of Hangzhou.

(7) Education of the small and medium enterprise advisors and establishment of the advisor system

(See 5.3.7 Education of the small and medium enterprise advisors and establishment of the advisor system)

1) Background of the proposal.

As a result of the questionnaires to 52 enterprises in the survey this time, there are many enterprises pointing out lack of human resources first. While it is important to solve the problem by training their managers, employees and engineers, it is impossible for the small and medium enterprises to retain all the necessary human resources in-house due to the size-related constraints, and so it is necessary for them to have human resources capable of cooperation outside.

All the enterprises that we visited this time seriously addressed the problems pointed out by the survey group members, and so we could yield reasonable results. In addition, the persons in charge thereof from the Department of Small and Medium Enterprises and the companies in the related industries, teachers and graduate students of the Management Department of the Zhejiang University participated in the diagnosis of the enterprises. And they expressed a wish that the diagnosis like this time will be continued at a meeting on diagnosis and guidance held at the end of the second fieldwork.

From these matters, it was confirmed that diagnosis and guidance are meaningful to provide solutions to the internal factors that the small and medium enterprises of Hangzhou has. At present, the State Technology Commission is planning to introduce the small and medium enterprise consultant system. It goes without saying that this is meaningful. However, it takes time to educate the consultants.

As is clear from the above, in order to intensify diagnoses and guidance, it is urgently necessary to educate the advisors, and it is also necessary to provide a qualification of the Hangzhou city small and medium enterprise advisor to them so as to be socially recognized and arouse enthusiasm for work by economically treating them well. On the other hand, the small and medium enterprises planning improvement by the guidance of the advisors should be granted some economical favor.

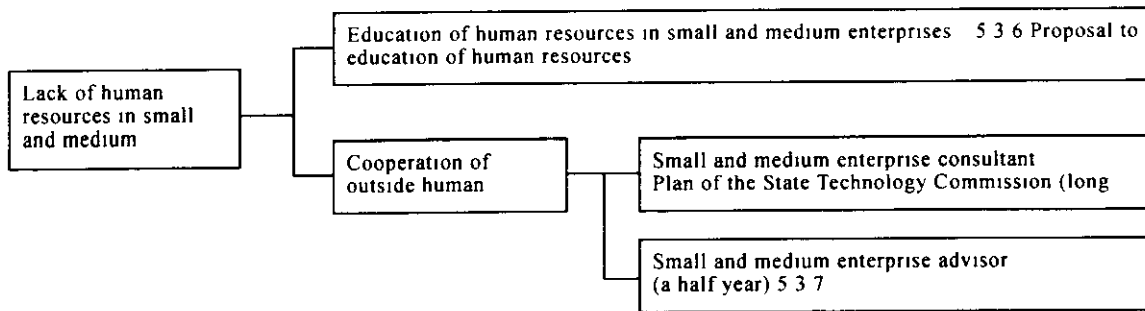


Figure 1-11 Countermeasures against lack of human resources in small and medium enterprises

2) Contents of the proposal

The training for the advisors is comprised of (1) enterprise management training and (2) manufacturing training. The enterprise management training of (1) is divided into the minimum requirements and the items to be further expanded in the future.

While a period of training is six months respectively, the trainees should not be allowed to become the advisors just by attending the training, but they should be evaluated by taking a practical test. In addition, they are obligated to attend a course by an expert twice a year (one day each time) in order to keep and improve the ability as the advisors.

① Enterprise management training:

While the subjects to be learned by the enterprise management advisors at the minimum are financial management (bookkeeping, financial analysis and funds statement), inventory control, progress management and quality control, they will expand to the fields of acquiring knowledge of personnel management, material purchase management, sales management, production control and information processing

② Practical manufacturing training:

In general, it is considered that the supporters and advisors of business administration are centering on deskwork and are hardly practical. To support and guide enterprises engaged in manufacturing of products, convincing support and guidance can only be given by those who experienced the manufacturing of products. The working technologies that the small and medium enterprise advisors should practically learn are design, cutting, control and measurement that are common bases.

- It is necessary to teach CAD that will certainly become a central technique of design in the future.
- Cutting is a starting point of the working technologies, and designed data

values are supplied to an NC finishing machine to create a work piece. They can learn that, at the stage of working what has been designed, there are a number of factors for consideration in terms of working.

- Control is used in every part of a manufacturing machine. If a circuit training flexible board is used to acquire basic knowledge for learning electronic control, a simple experiment on automatic control can be conducted.
- Measurement is essential for evaluation of a work piece. Process improvement and product development are conducted by feeding back measurement results to a design department or a preceding process, which is an important technique required of the advisors.

3) Costs of operation:

Instructor costs:

In training on business administration, it requires total 6 persons/month for a half-year training course at the first stage, with different instructors for the respective subjects, to perform three months of classroom study and three months of practice in the four subjects of financial management (bookkeeping, financial analysis and funds statement), inventory control, progress management and quality control

At the next stage, personnel management, material purchase management, sales management, production control and information processing and so on are conducted likewise. The instructors should mainly be teachers from universities, and those who have actual experience of working in a factory should instruct the practice.

Equipment for manufacturing training:

The manufacturing training is also planned to be a half-year. The equipment required for the small and medium enterprise advisor-training center to conduct it is as follows.

Table I-11 Equipment for manufacturing practice for advisors

Equipment for manufacturing practice for advisors			
Design training-related	Cutting training-related	Control training-related	Measurement training-related
CAD, CAM (low level)	Simple NC machine	Circuit training flexible board	Micrometer, caliper and gage
PCs (ordinary)		Programmable controller	Universal testing machine
		Oscilloscope	Measuring microscope

An estimated cost of practice equipment for advisors in the case of 10 trainees is approximately 17 million yen for the equipment at the low level that is easy to start with, and approximately 56 million yen at the intermediate level. Required building area will be 1,310m² at the minimum, and 1,700m² or so to make allowance. The training fees of the trainee should cover them.

4) Operation initiative and operation schedule

The operation initiative will be mainly taken by the Department of Small and Medium Enterprises, the Small and Medium Enterprise Service Center, and Hangzhou City Promotion Center of Technology Creation, so that they should plan and implement it in consultation with the agencies already engaged in training operation.

As for the operation, it is desirable to immediately start from where it is possible. We think that, of the first stage for management training, three months of classroom study and three months of practice in the four subjects of financial management (bookkeeping, financial analysis and funds statement), inventory control, progress management and quality control that are necessary at the minimum should be immediately started. They can be started if a concrete operation plan is made and the instructors are selected.

As for the second stage, training on personnel management, material purchase management, sales management, production control and information processing of the management training should be conducted.

Although there is the third stage for manufacturing training, it requires facilities as well as adjustment with the existing universities and training organizations

5) Effects of operation:

Then enterprises will improve their profits through streamlined management, and the municipal government will have brisk economic activities of the enterprises, which will consequently increase the tax amounts. From this viewpoint, a qualification should be provided to the trainees, and in principle, the advisor fee should be paid by the enterprises using the advisors, and it is necessary to actively make use of the advisors by exploiting them in the cases of financing and so on.

(8) Survey on management of small and medium enterprises and preparation of management/cost indexes
(See 5.3.8 Survey on management of small and medium enterprises and preparation of management/cost indexes)

1) Background and reason

When managing an enterprise, it is very important for the enterprise, in making a management strategy, to know what position it has compared to others in the same trade, that is, its precedence and weak points in management.

On the other hand, it is essential for the administration to grasp the actual management conditions of the small and medium enterprises in terms of planning measures therefore and also guidance and control thereof, and yet, it has not grasped the actual management conditions of the small and medium enterprises of a certain size or smaller.

2) Objects

- a) To grasp the actual management conditions of the small and medium enterprises by calculation, and acquire management/cost indexes by the types of industry and the sizes based thereon so as to support their securing of managerial resources.
- b) To grasp and exploit the actual management conditions of the small and medium enterprises so as to plan appropriate measures therefore.

3) Results

- a) It will be a guideline to their own improvement in management and management plans, which will be helpful to improvement in their enterprise structure by their own effort.
- b) It can be exploited as a guidance guideline in guiding and diagnosing an enterprise and as criteria of enterprise evaluation in the case of conducting assistance such as financing or leasing
- c) It can be exploited as basic materials in planning measures for the small and medium enterprises.

4) Contents (see Experience in Japan)

- a) Survey the actual management conditions of major industries of the city.
- b) Regarding at least the priority growth industries among the major industries of the city, management indexes wherein various ratios such as B/S are collected by the types of industry and the sizes and manufacturing cost indexes wherein

component ratios by cost items of the manufacturing cost are collected are prepared and periodically issued.

5) Main operation agencies

Department of Small and Medium Enterprises, Small and Medium Enterprises Service Center

6) Operation schedule

It is necessary and possible to implement it at an early stage (it is necessary, however, to continue to operate it periodically every year).

Procedure: ① Preparing and mailing the questionnaires ② Collection of the questionnaires by a person in charge ③ Calculation and analysis ④ Preparing the management and cost indexes

7) Economical benefit

It is feasible with relatively small amounts of money although preparation of the questionnaires and calculation cost are required.

8) Points of consideration and problems

- a) Whether or not it is possible to obtain correct data. When conducting the survey, correct data should be obtained through the Industry Commercial Administration or the Federation of Industry and Commerce.
- b) A certain collected batch of data by the types of industry and the sizes is required.

Experience in Japan

In Japan, the Small and Medium Enterprise Agency conducts a survey for the sake of preparing the management and cost indexes as to the industries of construction, manufacturing, sales (wholesale, retail, eating and drinking), transportation, communication, real estate and service with cooperation of the administrative divisions of Japan every year.

As for manufacturing, it surveys 141 types of industry of the small and medium enterprises, and as for the management indexes, it collects various ratios by classifying the data by the types of industry and the sizes (1 to 20, 21 to 50, 51 to 100, and over 100 employees). Moreover, as regards the cost indexes, it collects the average cost amounts per enterprise, component ratios of total cost and so on regarding manufacturing costs (direct costs 5 items, indirect costs 10 items) and sales/administrative costs (sales costs 8 items, administrative costs 9 items) by the types of industry.

(9) Maintenance of facilities for technical development (See 5.3.9 Maintenance of facilities for technical development)

1) Background and objects of installation of the facilities

Even the high-tech industries cannot help relying on the manufacturing technologies of the so-called traditional industries as to hardware (parts, equipment and so on). In the case of the small and medium enterprises, many of them need a solution to trouble in terms of practical working, and yet they do not have the equipment maintained to grasp the problem, and so it is not easy to obtain information (data) that is a base for solution of the problem. Under the present circumstances, few small and medium enterprises have the testing equipment for material physical properties that is an important issue in working. In such a situation, it is impossible even to grasp the cause of the problem accurately as to which of the working equipment, the working method and the material is wrong, and so measures for elimination of the problem cannot be taken and it is difficult to pursue technical development. It is impossible, however, that the individual small and medium enterprises possess the facilities required for technical development, and thus it is necessary to jointly construct and operate the facilities.

2) Facilities required for technical development

Testing, research and development facilities targeting machinery (including molds) industry, electronics and electricity industries, and light industry related to the traditional industrial technologies (however, it excludes electronic circuit technology) should be set up.

As the installed equipment belongs to the joint facilities for machine parts and product, electric part and product enterprises and various mold enterprises, the equipment concerned will be as follows approximately.

(Measurement and testing equipment)

A three coordinate measuring machine, a tensile testing machine, a friction testing machine, a form measuring machine, a surface roughness tester, a friction gage, a reading microscope, a scanning electron microscope, a gear measuring machine, a laser digitizer, and an environmental tester (vibration, heat resistance)

(Design facilities)

CAD, CAM, flow analysis simulation software, structural analysis simulation software

(Working experiment equipment)

Three axis NC machining center (medium and small) and general purpose machinery for test material effects, preservation and maintenance of equipment (a lathe, a milling machine, a sawing machine and so on)

3) Operation of the facilities

Funds for the facilities: The joint testing, research and development facilities will be maintained by the enterprises and individuals supporting the import of the installation, and a stock company in which the Hangzhou Municipal Government invested, provided that the investment by the government is a third or less of the total investment.

Personnel plan: The organization is comprised of a president, a vice president, a general affairs department and a testing and research department. The general affairs department has a person in charge of accounting (concurrently the vice president), a person in charge of personnel management and general affairs and a person in charge of sales (concurrently the president). The testing and research department has four persons for testing and development, two persons for CAD and CAM, and two persons for working equipment, so that there are eleven persons in all including the president at the time of foundation.

Users: The users of the facilities are the investors and also other enterprises. In addition, the incubation room will accommodate and incubate the enterprises related to the testing equipment and the contents of the research and development of the testing, research and development facilities.

Management plan. When making a business plan, a table wherein annual income and expenses, that is, a funds flow plan can be understood as a list is created and closely reviewed. In particular, a capital investment plan must be incorporated in the funds flow plan. As the operation seems difficult without expecting a subsidy, the municipal government must stipulate the rules related to these facilities as an ordinance

4) Main operation agencies

Hangzhou City (Economic Commission), those interested of metal working-related machinery (including molds), electronics and electricity enterprises and the small and medium enterprises engaged in light industry

5) Operation schedule

Collecting the investors, the installed equipment, the personnel plan, and review of the operation method: 1 year

Maintenance of the facilities/installation of the equipment: 3 years

6) Economic effects

For the small and medium enterprises:

- Operation of a material test, a parts test and a product function test allows the small and medium enterprises to grasp a clue to the solutions of the problems on their own. The technical solutions of the problems will improve the product quality and productivity.
- Users of the facilities can be supported for technical development by the engineers stationed there and also obtain new technology information.
- An operation guidance on the equipment that the enterprises are planning to install or have installed but is not sufficiently exploited can be given by the engineers of the facilities
- Quality improvement, technical improvement and development of the small and medium enterprises will evolve so that they will receive more orders and their markets will expand, leading to improvement in their management.
- It will lead to maintenance of the condition that makes entry easier for the large enterprises and the foreign enterprises requiring cooperative enterprises.

For Hangzhou City:

Because of increase in orders received by the small and medium enterprises, economy will expand, and so economic growth, job expansion and increase in tax income will promoted.

(10) Producing region analysis (See 5.3.10 Producing region analysis)

1) Producing region analysis for promotion of regional industries (referring to the ball pen factories in Fenshuizhen)

a) Necessity of activating regional industries:

One of the characteristics of the Zhejiang Province is development of the regional industries that can be referred to as a Wenzhou model. In Fenshuizhen that we surveyed this time, there are 365 enterprises related to production of ball pens. In addition, there are processing factories for clothing buttons, synthetic fibers, tools, leather products, wool sweaters, low voltage electrical components, mushrooms and so on. So far, they have been developing on their own without any support by the government. At this point in time, however, some of them are at a turning point. The reasons for the turning point are mostly delay in coping with the market, and so new measures (product development, improved production technologies and so on) are required. It is considered that adopting an effective policy for the specific enterprise group intensive in this region and activating the regional industries will greatly contribute to development of the Hangzhou City's economy.

b) Policy for region-intensive small and medium enterprises

- ① A producing region diagnosis technique is used to comprehensively survey the actual conditions of the producing region economic activities to grasp the characteristics and problems thereof, so that the future direction to be taken by the producing region will be clarified according to the structural change of the economic environment and also the matters required for streamlined management and improvement in technologies of the producing region group enterprises will become clear.
- ② As for execution of the matters pointed out for improvement by the producing region diagnosis, it is necessary to take measures such as financial support. It is also effective to organize a co-op and so on. It is also necessary to review a legal system for this purpose

c) Conducting the producing region diagnosis

- ① The producing region diagnosis can clarify what a producing region should be and demonstrate the characteristics as a producing region by taking measures for implementation thereof. In particular, the producing region can see in a new light the problems that have not become tangible so as to pave the new way for promotion of the region. For instance, measures such as

division of labor, more intensive geographical location, sharing, use of brand names, and improvement in technical levels are thinkable.

- ② Contents of the producing region diagnosis performance: In the producing region diagnosis, a questionnaire on the enterprises in the producing region, a visiting survey thereon, a manager meeting for exchange of opinions, and inspection of an advanced region are carried out. A door-to-door enterprise visiting survey (individual diagnosis) and overall compilation are carried out by inviting an outside consultant.
- ③ Main operation agency and related agencies It will be centered on the Hangzhou City Small and Medium Enterprise Assistance Agency and the Industry Assistance Agencies located in the producing region will be requested to cooperate.
- ④ Operation schedule: It requires three months for a preliminary survey such as designing, distributing and collecting the questionnaires. A local diagnosis takes three months by visiting a large number of the local enterprises. It takes three months for dialogs with a group of enterprises during the diagnosis operation period and dialogs with them for compilation of a report. It takes three months for compilation of a final report, and thus the producing region diagnosis is conducted for one year in total.
- ⑤ Cost and economical benefit of the producing region diagnosis: To conduct the producing region diagnosis, at least three persons in charge of management finance, production technology/control, and general management are required, and participation of a specific engineer must be considered each time. Accordingly, the producing region diagnosis requires at least the personnel expenses of $3 \text{ (persons)} \times 12 \text{ months} = 36$ (person-months).

This producing region diagnosis allows the regional and intensive type policy for small and medium enterprises shown in 4) to be established and promoted.

- ⑥ Points of consideration and problems in operation
 - Results of the producing region diagnosis cannot be expected, even if carried out, without cooperation of the local enterprises Before conducting the producing region diagnosis, the effects thereof should be publicized by conducting several individual diagnoses.
 - It is necessary to make it well known that the producing region diagnosis is not intended to reinforce municipal control over the producing region but to create voluntary challenges for the producing region enterprises.

d) Applying the producing region diagnosis to production of ball pens in

Fenshuizhen in, Tonglu Prefecture

There is a ball pen factory in Fenshuizhen included among the enterprises to which the enterprise diagnosis and guidance were given this time, which led to discovery of the group of ball pen enterprises. And importance of coping with the group of enterprises as well as streamlining of each enterprise was recognized. For this reason, we conducted the questionnaire survey on several companies other than the subject enterprises and also visited them. In addition, we especially held a seminar in Fenshuizhen as requested by the government of the region. The staff members of the Department of Small and Medium Enterprises also joined the seminar. As described above, Fenshuizhen is actively trying to modernize the group of the ball pen enterprises. Accordingly, it is desirable to conduct the producing region diagnosis of the Fenshuizhen ball pen enterprise group to clarify their problem and countermeasures so as to take supporting measures as the Hangzhou Municipal Government including fostering of a co-op.

① Status quo of ball pen production in Fenshuizhen , Tonglu Prefecture

365 companies with 11,000 employees are engaged in ball pen production at present, and so Fenshuizhen is called "the source of pen production." While some of them expanded management scales, majority of them are small enterprises of domestic industry. As the following table shows, their output has expanded and export quantities are also large.

Table I-12 Status quo of ball pen production in Fenshuizhen, Tonglu Prefecture

	Total output	Export amount thereof	(Taxes of the trade)
1998	265 million Yuan	27 million Yuan	25 million Yuan
1999	352 million Yuan	51 million Yuan	35.6 million Yuan
2000	56 million Yuan	100 million Yuan	50 million Yuan

(Sales in 2000) 680 million Yuan, output 2 billion pieces, export ratio 20 percent

In the ball pen trade, the Tonglu Prefecture Pen Production Society was established in April 1998 for the purposes of promoting friendship among member enterprises, exchanging information, maintaining order and reinforcing competitiveness in the trade. The society not only raises the management level of the members, but also exchanges information with its upper organization, the China Pen Production Society and Shanghai Pen Production Research Center and Wenzhou City's pen production trade and so on in other regions while improving its own image.

② Problems of the Fenshuizhen ball pen factories

- i) There are the following problems in enterprise business administration.
 - a) Lack of administrative ability is noticeable as to the size of 10 employees or less.
 - b) Technical development ability is low, and consciousness of managers is also low.
 - c) They get in each other's way by imitating new products or improvements. In addition, protection of intellectual properties by the government is not enough.
- ii) There are the following problems as to the products
 - a) The ball at the tip of the ball pen drops out in use.
 - b) Liquid leaks from the connected portion.
 - c) The designs are old.
- iii) The managerial environment is as follows according to simple written questionnaires from 13 ball pen manufacturing companies of a medium or larger size.
 - The management challenges that they are currently facing are "Although equipment funds and operating funds are necessary, no financing source can be found" and "There is no profit due to low market prices."
 - On the other hand, as for the answers (a plurality of answers are allowed) to "Future objects and plans of your company," the following are mentioned in decreasing order of the number of answers. ① Improvement in quality, ② improvement in productivity, ③ new product development, ④ expansion of markets and business ⑤ capital investment, and ⑥ work environment measures. To be more specific, the key to activation of the region seems to be the demand for money including operating funds in addition to various equipment funds such as those for reinforced testing and examination equipment and introduction of modern facilities.

③ Costs and merits in the case of the ball pen manufacturing in Fenshuizhen In the case of the ball pen manufacturing in Fenshuizhen , the tax payment reached 50 million Yuan in 2000. The producing region diagnosis cost is 3 persons x 12 months = 36 person-months, and so it is 720,000 Yuan in the case of employing experts for 20,000 Yuan a month, which is 1.5 percent of the current tax payment As a result of the producing region diagnosis, further development than keeping the status quo can be expected in the case where the ball pen factories are modernized.

④ The producing region diagnosis technique

4-1) Diagnosis subjects

Groups in a region where those who are engaged in business belonging to the same type of industry intensively exist (producing region), said groups engaged in that business or any business related thereto.

4-2) Diagnosis method

Data of general trends and so on related to the type of industry of the producing region is gathered and analyzed, and a basic survey for conducting overall observation and grasping problems as a producing region group is conducted, and further a basic survey by a field diagnosis is conducted to supplement it and analyze and study it concretely and positively, wherein structure, characteristics of the producing region group and their problems and causes are grasped and reviewed in advance

① In order to grasp the existence base and current situation of the producing region, the characteristics of the producing region, the number of enterprises, transition and structural change of production, distribution and so on, labor supply and demand, prospects of demands for products and materials. ② As for individual enterprises, the management form, facilities, technical level, material purchase, product sales and distribution, financial situation, cost structure, funds, income and expense situation and personnel management situation. ③ Furthermore, purchase trends of the producing region's products in the distribution mechanism and sales areas. In a field diagnosis to grasp and review the trends in other producing regions and overseas, as required, change of geographical conditions and the actual management conditions of the producing region's component enterprises are positively analyzed and considered in order to look into the current situation, characteristics, problems and their causes clarified by the basic survey and derive the future direction as a producing region group, and the subject enterprises of the diagnosis are selected by considering the type of industry, business conditions, enterprise size, products, business relations and so on, and when conducting the survey, the position and adaptability and so on as a producing region entity are investigated.

4-3) Analysis and evaluation

The following matters are analyzed and evaluated to provide a necessary recommendation.

- i) History of the producing region, the current situation, characteristics and problems, economic environment conditions and future direction thereof that are nationally and regionally viewed
- ii) Analyzing the industrial structure, production, distribution, labor, the structure and characteristics of the markets and so on of the entire producing region as well as the actual management conditions and the management level of the producing region's component enterprises so as to clarify the development factors, impediment factors and their background as an industrial group.
- iii) Setting the matters to be improved and the modernization objects of overall producing region activities comprehensively determined from i) and ii).
- iv) The matters to be improved as to modernization of management, improvement in technologies, sophistication of products, facilities and so on of the producing region's component enterprises.

Chapter 6 Pilot Project **(The Text: Chapter 6 Pilot Project)**

On the selection and execution of the pilot project, Hangzhou city and the investigation team had arranged in the primary site investigation started from 10 October 2000, reached an agreement on 31 October and concluded a memorandum. The contents consist of advices to (1) Construction of a network for Small and Medium enterprises and (2) Establishment of Investment Fund Company. After that, the both projects entered into execution, getting approvals of JICA.

In the followings, the contents, the execution conditions and so on are described.

(1) Network for Small and Medium enterprises

(The text: The object and results of construction of a network for Small and Medium enterprises as the pilot project)

As a part of this investigation, a network for Small and Medium enterprises is adopted as a pilot project to propagate the policy information of the city and offer the information of the market or technology, This project is performed as a pilot with a limited object, under the given conditions of a limited term and limited fund. Owing to endeavor of Hangzhou city, the network for Small and Medium enterprises was built up in March 2001, and started actual operation. After that, it is progressing to revise the data and link to the networks to existing in China, Zheijiang, or Hangzhou.

The maximum effect of this pilot project is to prove that a network for Small and Medium enterprises can be built up in a level of city government of China with a comparative small budget.

Of course, the present operation state remained items to be executed from now the items, such as link with oversee net works, propagation of IT to Small and Medium enterprises, etc. Further, it is also necessary to add contents effective for Small and Medium enterprises. But these items can be progressed concretely proving with operating network, not only considering on head. Therefore, the network for Small and Medium enterprises as a pilot project has great meaning.

The numbers of existing networks for Small and Medium enterprises in China are small. The case of Hangzhou is recognized as one case of such network by China central government. If a similar network for Small and Medium enterprises is planned in other cities, this case in Hangzhou may be referred. And, If similar networks for Small and Medium enterprises are built up in the other cities, more effective operation can be expected through exchanging contents etc. each other. Further, if the central government

can support access to oversea information for Small and Medium enterprises of each city, it is expected that a barrier of language will be easily facilitated.

1) Operation contents of network for Small and Medium enterprises initially planned

Network for Small and Medium enterprises can be utilized to various uses, but shall be executed for the following items in this time of investigation, because of short term.

When once the net is built up, it become possible to be extended to the other uses,

- ① Transmission of administration and finance information of Hangzhou city
- ② Introduction of new technology
- ③ Presentation and discussion of request and opinion from Small and Medium enterprises
- ④ Access to existing various nets
- ⑤ Propagation of IT to Small and Medium enterprises

As for establishes of venture fund, to set up the Web site for venture finance and venture investor is added in this net.

The following item is not made object in this time.

- ⑥ Construction of B to B by information net between enterprises and connecting net between job seeker and job supplier.

Function of network for Small and Medium enterprise is described as in the figure

2) Preparation of establishment of network for Small and Medium enterprises

Concrete work was performed by a private consultant company appointed by Hangzhou city and JICA using equipment and software provided by JICA under cooperation of specialists of the investigation team.

3) Operation starting of the network for Small and Medium enterprises and it's performance

Owing great effort of Hangzhou city side, the network could be placed before public gaze on 28 March, although leaving a few problems. The URL of the WWW-site is "http:www.hzsmesc.com". Present contents are as follows.

- ① Window of policy. Offer of the policy information of the nation, the province, the city so on
- ② Various procedures: Procedure guidance from establishment and operating to

dissolution of enterprise.

③ Mediation service: Introduction of related offices (lawyer, accounting, public health etc.).

④ Technical information: Linkage with organizations of research and development and offer of the latest technical information.

⑤ Information Department of Enterprises: Site for introduction of member enterprise and opinion exchange.

4) The cost until the establishment was as follows:

The fee for the Price of equipment and software arranged by JICA was ca. 400,000 Yuan, local consultant arranged by JICA was ca. 200,000 Yuan and total expenses borne by China side was 268,800 Yuan (personal expenses: 188,400 Yuan, office rent: 36,000 Yuan, water and electricity expenses 14,400 Yuan, communication and traveling expenses 8,000 Yuan, server maintenance expenses: 22,000 Yuan), and the gross total was ca.870,000 Yuan. (Fee for Japanese specialists and interpreter is not included.)

5) Future operation expenses

If following personal lineup is scheduled, personal expenses become 450,000 Yuan. If office work expenses and future software development fee are added, total expenses becomes nearly equal to the initial investment. As the development of personal computer and communication technology advances very fast, almost daily, and if renewal of equipment is taken into account, the network shall be supported by users, i.e., Small and Medium enterprises themselves, therefore, it shall make a visible contribution to their promotion

Table I -13 Personal expenses of the network for Small and Medium enterprises

	Number of person	Monthly expenses (in Yuan)	Total (in Yuan)
The person in charge in every district	6	1,500	9,000
Input work	2	1,500	3,000
Database maintenance	1	8,000	8,000
Programmer	1	10,000	10,000
Manager	0.5	15,000	7,500
Total	10.5	36,000	37,500

*The secondary developing expenses for software is not included in the above figures

6) Evaluation of the network for Small and Medium enterprises

The network for Small and Medium enterprises has just started its operation and, at present, it is still at the stage of advertising and publicity activities and considerable time is needed to evaluate the effect of the network. But the information from Hangzhou city gives a broad prompt evaluation as follows.

Table I -14 Track record of the network for Small and Medium enterprises

Evaluation of the network for Hangzhou Small and Medium enterprises	State Economy & Trade Commission, PRC, places special emphasis on the network and promotes the information revolution of enterprises using the network prior to whole China. The person concerned of Zhejiang province and Hangzhou city also evaluates big role of the network in the strategy of "Promotion of industries through information revolution". And it is appreciated by industries of Hangzhou city consisted almost by Small and Medium enterprises, so member of the network are increasing.
Establishment of two-way linkage	Two-way linkages are established among "China Small and Medium Enterprise Information Network" and "Cooperated International Network of SMEs" of State Economy & Trade Commission, PRC, and existing 21 networks of Zhejiang province and Hangzhou city.
Refreshment of contents	More than ten government relational departments of Hangzhou city (province and districts) etc. established a periodical contact system. They refresh contents of the network as requires, and promote and support network construction.
Increase of member	Member enterprises only are already 119 companies (incl. several famous enterprises), enterprises mediated are 72 companies, enterprises linked with two-way linkage are 29 companies, and enterprises seeking technical service for network are 30 companies.
Access volume	Between the operation start on 16 April and 30 May, access numbers have reached already 34,000 times.

7) Service condition and improvement plan of equipment

① Service condition

As for the pilot project, elf personal computers are provided in addition to one personal computer for server. But because of ability shortage of server capacity caused by rapid development of the system, another server of the company under State Economy & Trade Commission, PRC, is shared for this system. Elf personal computers are used so as one for improvement of database software, two for input work, one for internal management, four for

internal training and one for Jianggan area. These personal computers will be by degrees used for training of personals of Small and Medium enterprises etc so as they initially planned, but it is informed that those computer scheduled to be located in central six districts will be settled after confirmation of the truck record in Jianggan area.

② Improvement plan

The operation of the network was started with equipment settled for the pilot project, but in several months after the establishment (from 28 March to 1 August), the access numbers to Web site reached 34,000, and the numbers of member became 120 enterprises and 72 medicated enterprises. Owing to increase of the access number to Web site, it has become difficult to insure the safety, stability and fast response of the site with the existing equipment. On the other side, increase of site publicity activities has required to adapt the network to presentation at the outside. From these points of view, the person in charge operating the network for Small and Medium enterprise calls the necessity of the following improvements.

1. Expand of server: Server (IBM Netfinty 7100) + 18.2G (SCIS) 10.000 rpm) x2 + Hot plug hard disk + 256M Memory (82,000 Yuan)
2. Projector: For presentation at the outside
3. Fire wall: Adaptation for the safety and reliability of server.
4. Modification of the communication line to ADSL: Existing ISDN has 64K bandwidth and is used by two companies, therefore the refreshing speed is too late. (10,000 Yuan per year)
5. CD-R drive: To provide for a sporadic situation, acting as backup for the site.
(2,700 Yuan)
6. Scanner At present, a private device is borrowed. (1,500 Yuan)
7. Network management software: To monitor the flow in the site. (12,000 Yuan)

③ References for the future pilot project plan

1. To provide margin for the server capacity and to use appropriate server instead of substitution by normal personal computer.
- 2 To consider countermeasures against hacker in advance. To provide CD-R for backup
3. For operation of the system, scanner as for input device and projector for presentation are also required.

(2) Advisory service of investment foundation

(The text: 6.2 The Advisory service of investment foundation)

Hangzhou city is brisk in economic activities of its manufacturing industries, service industries incl. tourism services, etc , therefore, a rich region. The citizens enjoy the high living standard, and enterprises and also individuals have not a few funds. On the other hand, its rapid economic growth arises many excellent chances of investment. In order to combine these ample funds and excellent chances of investment, in Hangzhou city, ten nation wide scale commercial banks of the joint-stock company system have their branches, in addition, four State-Owned Commercial Bank have also their blanch offices. Other than the funds raising through the finance (indirect) system by these banks, another funds raising as a direct finance system with investment foundation has been adopted to promote venture enterprises, and an investment foundation company has been established mainly for the promotion of high-tech industries

In this investigation, the subject to be studied is the establishment of investment foundation, targeting the modernization of Small and Medium enterprises included the introduction of high-tech technology, not limited for high-tech industries, as a part of promotion policy for Small and Medium enterprises.

From this point of view, in the stage of the primary site investigation, it is confirmed that the advisory service for investment foundation shall be covered in the pilot project.

At the beginning, the advisory service had started with the goal of establishing an investment foundation of the join-stock company system. On the other hand, the investigation team recommended a study of an investment foundation of the limited partnership system (LPS) for the following reason. Hangzhou city acknowledged the merit of LPS, decided its policy, that not the joint-stock company system but the LPS system should

be applied, and prepared the Hangzhou city's LPS Law and its detailed rules etc., also enlisting the cooperation of the investigation team.

It is said that, in China, there are ca.100 of venture capital, but all of them are of the joint-stock company system (the system, in which the capital of the company becomes the investment resources), therefore a central position of the funds resources of the venture capitals cannot be occupied but only by proper funds, and it limits the scale expansion of the VC-businesses. Since ca. three companies style VC with the goal of high-tech investigation is existing in Hangzhou, it is desirable to adopt the LPS system with a view of the Small and Medium enterprises promotion. If it is realized, it will become a developmental attempt in China in the sense that the first investigation company of the LPS system in China is realized, and it will become a epoch-making matter in the sense not only for the high-tech industries but for the modernization of Small and Medium enterprises, therefore it represents a great sense for the pilot project.

When the investment foundation of LPS system has been actually established, a problem, that no experience for its operation exists in China, will come up, and sufficient countermeasures including also support from overseas shall be studied.

Merit of LPS

Against a proper business personality of high-risk & high-return for venture business, it was requested that distinction of the interests and jurisdictions among the business partners should be made clearly, a flexible and efficient business operation system, and a smooth funds supply system. Conforming to the requests, the Limited Partnership System (LPS), with which each due responsibility of the business partner can be divided into limited responsibility and unlimited responsibility, has been born. At present, this LPS system is the most popular business model in the VC-world. Other than the above reasons, there are following characteristics: in the case of the joint-stock company, taxes shall be borne by the company itself and the individual capitalists too, but in the case of LPS, taxes shall not be borne by the partnership, therefore the double taxation can be prevented, and also in the case of LPS, as the term can be limited, the funds arrangement will be easily carried out.

Figure I-12 Merit of LPS

1) Operation contents of advisory service initially planned

As of the time point of the primary site investigation (in October 2000), when this advisory service was adopted into the pilot project, Hangzhou city planned that the investment foundation company established until middle 2001, and started the company at the first stage with the capital of 100,000,000 Yuan. On these preconditions, following advisory services were planned.

- ① Advices on the preparation of the business plan for establishment of risk investment foundation company
- ② Venture enterprise evaluation program (manual preparation for the evaluation and technology transfer to the related personnel)
- ③ Web site construction with Internet (for venture enterprise and for investor)

2) Changes of the plan

At the beginning, the business plan was prepared on the precondition that the capital should be managed through company organization, but afterwards, in consideration of such probability that the share of the proper individual fonder would become too high and then its normal operation of the foundation would be disturbed, and also accepting the investigation team's opinion on the advantage of the Limited Partnership System (LPS), LPS System has been adopted.

3) Contents of the advisory services

Correspond to the above condition changes, the contents of the advisory services have been changed.

Concerning ② and ③ of the followings; ① Preparation of the business plan, ② Venture enterprise evaluation manual and ③ Home page preparation, their drafts submitted by the investigation team have been confirmed and agreed as final products in March 2001

On the other hand, concerning ① the business plan, a draft on the precondition in the initial plan, that the capital was managed through company organization, was

once submitted, but since Hangzhou changed its policy to the direction, in which LPS system was premised, the investigation team has given explanation of the mechanism and model contract of LPS system intensively

From the investigation team, the LPS model contract, the United States LPS model code, the draft of business plan, a draft of investment plan etc. have been submitted and explained. Since there is no similar example in China, the above materials have become the only conforming materials. (In the case of Zhongguancun in Beijing, it has not been studied until the detailed rules)

4) Correspondence of Hangzhou city

An establishment conception of the venture investment company with LPS system has been submitted from the Small and Medium Enterprises Service Center to the government of Hangzhou city, draft preparation of the related laws and regulations has been instructed from the government of Hangzhou city to the Economic Commission and the Economic Commission has ordered the Small and Medium Enterprises Service Center to prepare the draft. In case of the venture investment with LPS system, enacting of a special law, of which its effect is limited in Hangzhou city, is indispensable.

Using these materials and with the cooperation of the team member Mr.Zhang, the Small and Medium Enterprises Service Center has interviewed personally with the presidents of state enterprises, the presidents of private enterprises, the lawyers in charge of economical matters, the influential private investors, the related governmental organizations etc., exchanged with them the opinion and prepared the five kinds of following materials.

- Draft of the Hangzhou city LPS Law and its detailed rules
- Draft of the prospectus for establishment of the venture investment managing company
- Draft of the articles of association for the venture investment company
- Draft of the LPS contract

Draft of the investment plan

Discussion at Legislation Bureau has been started on 16 August. ① The course of adoption of LPS, ② Contents on the LPS including operation method, ③ Difference from the case of Zhongguan village, ④ Experience of Zhongguan village and so on have been reported. In future, ① Legislation Bureau prepares the first draft and discuss with Industry & Commerce Bureau, Taxation Bureau, China People Bank, etc., ② Department of Small & Medium Enterprises and Small & Medium Enterprises Service Center prepare the explanation materials for People's Meeting, and ③ Through the consultation with Zhongguan village, Beijing City Legislation Bureau, Economic and Trade Commission etc., its legal basis is solidified. On the other hand, Hangzhou city Small and Medium Enterprises Service Center leads others in establishment of a management organization, and executes basic works, with which the center becomes GP of LPS.

5) Discussion on the draft prepared by Hangzhou city

Between 20 and 28 June, the investigation team has examined carefully the above materials prepared by the Small and Medium Enterprises Service Center. These materials, since they are based on the materials submitted by the investigation team, have no fundamental error, and only errors caused by mistakes etc. have been revised. The final products will be officially submitted to the government. Furthermore, as with this site investigation the advisory services come to an end, some practical subjects after the establishment of the foundation have been also examined.

6) Future trends

Future trends depend on the decision of Hangzhou city, but if an investment foundation is established as of LPS system, it is considerable, that support from the outside will be needed concerning concrete operation of the foundation. And also, there is large possibility that the LPS system spreads widely in China.

7) Enforcement schedule

Table I-15 Enforcement schedule of advisory service for investment foundation

	Time	Consulted matters, job items
1 st	Middle of December 2000	<ul style="list-style-type: none"> • Confirmation of background of the matters to the partner • Confirmation of proceeding condition of the matters to the partner • Confirmation of requirement on the overall job execution policy • Confirmation of requirement of the partner to us • Present conditions of venture capitals in Hangzhou city
2 nd	Middle of February 2001	<ul style="list-style-type: none"> • Confirmation of proceeding condition of the matters to the partner • Explanation of our preparing policy on the drafts of the business plan and manual prepared by us • Explanation of development details of venture capital industries in United States and Japan (with seminar) • Acquisition of basic information on the enterprise sector in Hangzhou city • Confirmation of requirement of the partner to us
3 rd	Middle of March 2001	<ul style="list-style-type: none"> • Confirmation of proceeding condition of the matters to the partner • Discussion on the drafts of the business plan and manual prepared by us • Confirmation of requirement of the partner to us
4 th	Middle of May 2001 (Mr 張 until middle of June)	<ul style="list-style-type: none"> • Confirmation of proceeding condition of the matters to the partner • Explanation of mechanism of LPS contract • Confirmation of requirement of the partner to us
5 th	End of June 2001	<ul style="list-style-type: none"> • Discussion on the drafts of LPS law, its detailed rules etc prepared by the partner • Consultation on the future tasks