

SMEs Needs

Small and Medium Enterprises (SMEs) are the important entities which tow the Japanese economy, and in the midst of the present financial crisis, the government has repeatedly been quick to develop a range of measures to support them. We asked director-general for Small and Medium Enterprise Policy **Ichiro Takahara** about these measures, as well as the government's range of policies for drawing out the potential of SMEs.

The Japan Journal: Please tell us about the state of Japan's small and medium enterprises.

Ichiro Takahara: We recognize that the situation for SME management is tough. There is a regular survey on SME business conditions of 19,000 SMEs done by the Small and Medium Enterprise Agency and the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SMRJ). If you look at the survey, the diffusion index (those "in good condition" minus those in "in bad condi-

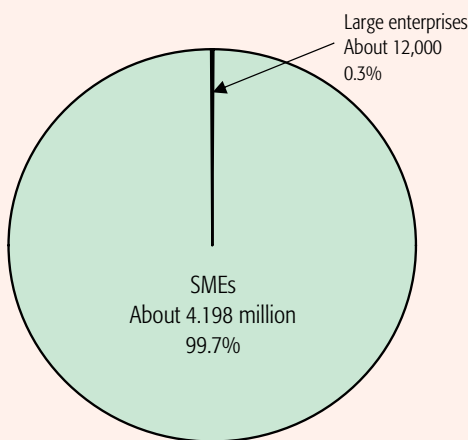
tion"), this had been climbing through increase of product exports and capital investment since the bottom of the recession at the start of 2002. However, the DI has now worsened for the eleven consecutive quarters since the period April to June 2006. The slump of 42% by the period of October to December 2008 was the worst since the survey system was revised. Because SMEs could not cope with the quick rise of oil prices and its influences, and on the other hand could not shift the cost on to their products' price. SMEs' profits were put under

great pressure. If we look at this by type of industry, SMEs belonging to export-related industries, in particular the manufacturing industries, which have done well with exports in the past, are in relatively good shape. Business conditions remain tough for industries such as the building, wholesale and retail industries which rely on domestic demand. That is where the financial crisis that occurred in the summer of 2008 has caused major change in the management environment surrounding SMEs that cater to such domestic demand and which have not been in good condition. Export-based SMEs that had experienced better business conditions are now suffering from the sudden appreciation of the yen and the downturn in the world economy. The financial crisis in the United States has caused a global downturn in stocks and has reduced personal consumption due to a loss of consumer confidence. Thus, the business conditions both domestically and overseas are getting worse. We recognize that this is the current state. Moreover, the situation is extremely tough and SMEs find them-

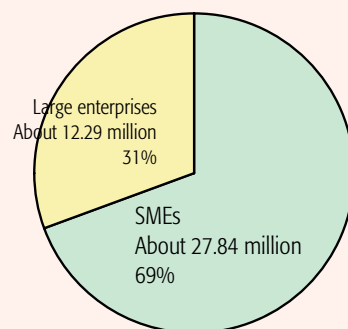
SMEs in Japan

SMEs account for 99.7% of Japan's enterprises numbering 4.21 million. Also in terms of the number of employees and value added (in manufacturing), SMEs account for about 70% and over 50%, respectively.

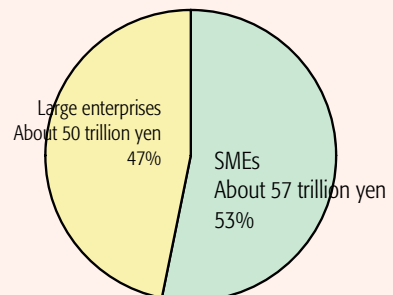
Number of enterprises (4.21 million)



Number of employees (40.13 million)



Value added in manufacturing (108 trillion yen)



Definitions of SME:

- Manufacturing: Capitalized at 300 million yen or less, or not exceeding 300 employees
- Wholesale: Capitalized at 100 million yen or less, or not exceeding 100 employees
- Retail: Capitalized at 50 million yen or less, or not exceeding 50 employees
- Service: Capitalized at less than 50 million yen, or not exceeding 100 employees

"Statistics Table (Census of Manufacturers 2006)" by the Ministry of Economy, Trade and Industry (METI)
Compiled from "Establishment and Enterprise Census of Japan (2006)" by the Ministry of Internal Affairs and Communications

selves balanced on a knife-edge.

SMEs have a very large presence. They account for 4.198 million of the roughly 4.21 million corporations in Japan, or 99.7% of all corporations, and employ 69% of the corporate workforce, or 27.84 million employees out of the total of 40.13 million people working for Japanese corporations. Even though the scale of SMEs is small, in terms of added value for the manufacturing industry, they generate 57 trillion yen out of a total of 108 trillion yen (1.16 trillion dollars), or about 53%. When viewed by region, SMEs are major pillars that sup-

getting worse, being 0.34 in Okinawa and 0.36 in Aomori, for example. The average for the country in October 2008 is 0.80. Thus, local business confidence is declining almost everywhere. The employment situation is also rapidly getting worse. Even major manufacturing companies have frozen hiring and some have withdrawn employment offers. We recognize that business confidence has been hit hard around the country and that SMEs are facing a severe business environment.

The government has been hammering out emergency measures to deal with

guarantees and the expansion of policy finance. As for the fund guarantees, that is to say the structure whereby the public sector, the Credit Guarantee Corporation in regions guarantees the loans of commercial banks for promoting loans for SMEs. The government is taking steps in terms of figures that are based on economic countermeasures to avoid a credit crunch in the private financial sector created by the economic downturn. The financing measures for SMEs stood at 20 trillion yen for the guarantee by the Credit Guarantee Corporation and 10 trillion yen for the loans by the



We have set up 316 local support centers, which provide management support as a one-stop service by linking specialized organizations and skilled talent in the region... [These match] SMEs with specialists such as IT coordinators, tax accountants and lawyers, and provide support for developing new business, opening up sales channels and for business succession.

—Ichiro Takahara

port the regional economy and play an important role in regional employment and even people's lives.

What about business confidence according to regions? I believe there are variations.

There are large variations reflecting the difference of industrial structure of SMEs and in SME business confidence depending on the region. However, even when we look at the jobs-to-applicants ratio in September 2008, the trend is for a decline owing to the influence of business downturn. Although in urban areas like Tokyo and Aichi Prefecture the ratios are good at over 1.00, being 1.11 and 1.38 respectively, in local areas they are

these issues since August. Please outline the main points.

The government and ruling parties are working out agile emergency economic measures to counter the tough situation facing small and medium enterprises. In particular, in terms of measures for financing, which is a life and death matter for SMEs' management, the government formulated "A Comprehensive Measure for Pursuing Life Security" on August 29th, "Measures to Counter Difficulties in People's Daily Lives" on October 30th, "New employment measures" on December 9, and "Emergency measures to defend people's daily lives" on December 12th. The major pillars are to promote the system of fund

government-affiliated financial institution at the time of the August and October measures. Furthermore, with the deterioration in the worldwide financial crisis, another measure totaling 43 trillion yen was set out in December (see **pages 4-7**). These measures support not only financing for SMEs but also employment, tax breaks, determining appropriateness of subcontracted works and undertaking of new business. In particular, the employment measures are very important for securing the SMEs and their manpower. We have expanded the Job Cafe job-hunting centers and are strengthening training support at SME factories and shops.

Implementing such measures in rapid

succession indicates the importance the government places on the SMEs.

The government considers SMEs to be the driving power for the Japanese economy and has taken measures to draw out the latent strength of SMEs. Against this background, there has been a major shift in policy toward SMEs. For a long time after World War II SMEs were treated as being weak, the measures introduced to support them being mainly protective. When the Small and Medium Enterprise Basic law was revised in 1999, the target of the policies was to promote the mobility, flexibility and creativity of the SMEs to lead the Japanese economy as a dynamic resource and one that creates employment opportunities.

Looking at the history of global corporations such as Sony, Honda and Toyota, it is obvious that SMEs have a great potentiality. Also, by manufacturing components and so on, SMEs play a very important role as supporters of the Japanese manufacturing industry. SMEs are perceived as extremely constructive entities in the sense that they develop new products and services, create new competition and foster innovation. In this sense, too, SMEs are important entities.

As well as supporting major corporations, SMEs possess technical skills supported by proprietary technologies, know-how and tradition. In that sense, I think the initiatives by the government to uncover regional resources are deeply interesting. Could you elaborate on this point, please?

Under the present worldwide financial crisis, we are working on measures for future SME policies. These measures include the support for finance which I explained previously, support for new challenges such as the utilization of regional resources, development of overseas markets, and also support for the renovation of shopping streets according to the revised New Economic Growth Strategy which the Cabinet announced in September, 2008. Japan has a lot of excellent resources in the regions, such as traditional technologies, agricultural products and tourism

resources. We are introducing comprehensive measures to effectively utilize these resources, for example, by providing development of new products, new services and marketing assistance. The Japan Brand Strategy is one such approach, being an initiative which provides support aimed at opening up overseas markets for small and medium enterprises.

We provide comprehensive support for initiatives to establish a world-class Japan Brand whereby the regions make concerted efforts to increase the appeal of local products that utilize regional strengths such as materials and techniques. While supporting local chambers of commerce and industry, we develop “support for establishing brands” such as joint product development, presentation at regional trade fairs, and brand management structures through a process of “strategy formulation” which analyzes local resources and studies brand concepts that ultimately are brought to individual entrepreneurs. In addition, we have set up a nationwide Japan Brand secretariat, which provides support for opening up new sales channels, business matching at overseas trade fairs, and evaluation of individual projects.

What issues are important in terms of supporting the development of overseas markets?

In this age of globalization, the distinction between domestic and international is disappearing. In such an environment, the barriers to entry, such as differences in business customs and institutions, is high for SMEs that are taking a variety of approaches to the process of expanding overseas, so we are reinforcing comprehensive partnerships to facilitate a seamless and rapid transition from domestic to overseas markets by devising collaborative structures involving JETRO overseas offices, the SMRJ and other domestic organizations.

In the case of the regions, I think there are many cases where there are limits to developing a business alone, or the resources are there but the human resources are insufficient. What kind of support is available there?

As of this fiscal year, from April 2008 to March 2009, we are developing a one-stop service to support ways of improving management strengths and to increase the “power of connections” such as the expertise, know-how, human resources, financing and markets that are vital for small and medium enterprises. We have set up 316 local support centers, which provide management support as a one-stop service by linking specialized organizations and skilled talent in the region. The core is a service desk that provides advice on resolving the issues that SMEs have and that matches SMEs with specialists such as IT coordinators, tax accountants and lawyers, and provides support for finding the seeds for new business, developing new business, opening up sales channels and for business succession. In these measures, we have been active in boosting collaboration between agriculture, commerce and industry where there have been few opportunities for collaboration in the past. As well as implementing measures to maximize management resources and expand markets, we would like to improve internal reform at SMEs. Since quite a lot of unique initiatives have launched in the regions, we would like to accelerate the trends in cooperation between agriculture and commerce and industry.

Consequently, local chambers of commerce and industry, universities, financial institutions, NPOs as well as agricultural cooperatives are participating in the local support centers, which are staffed with nearly 800 experts who provide coordination support.

The goal of our measures is for SMEs to make significant contributions as the base of the Japanese economy and contribute to the revitalization of the regional economy. Therefore, we are working on the development of comprehensive and effective measures for supporting SMEs including the introduction of IT and conserving energy always taking into account the opinions of SMEs’ management. We are consolidating the implementation system to provide exactly what SMEs need. □

Interview by Hitoshi Chiba, The Japan Journal