

The Policy Environment for Promoting SMEs in Japan

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Introduction: The Context of SME Development in Japan

In Japan, the significance of small and medium enterprises (SMEs) is widely recognized. SMEs have been performing multi-layered functions for the Japanese economy. First, SMEs contribute heavily to economic activities and growth of a country. Second, SMEs create many employment and income generating opportunities in society. Table 1 shows that SMEs in Japan contribute to over 99 per cent of all business and more than 70 per cent of all employees. In particular, smaller-scale enterprises have provided job opportunities especially for women and elderly who have been excluded from economic activities. Thus, SMEs play a major role in the creation of employment opportunities in Japan. Additionally, SMEs exceed large enterprises in annual value added as a foundation of Japanese industry.

Table 1: Situations of SMEs in Japan

	SMEs	Large-scale Enterprises	Total
Number of Enterprises (private, non-primary industry, 2004)	4,326,342 (99.7%)	11,793 (0.3%)	4,338,135 (100%)
Number of Employees (private, non-primary industry, 2004)	28,086,554 (71.0%)	11,466,209 (29.0%)	39,552,763 (100%)
Value of Shipments (manufacturing industry, 2004)	144,056 (billion) (50.7%)	140,115 (billion) (49.3%)	284,171 (billion) (100%)
Equipment Investments (manufacturing industry, 2004)	3,834 (billion) (37.1%)	6,503 (billion) (62.9%)	10,337 (billion) (100%)
Added Value (manufacturing industry, 2004)	57, 513 (billion) (56.6%)	44,163 (billion) (43.4%)	101,677 (billion) (100%)

Sources: *White Paper on SMEs in Japan*.

Third, SMEs and venture enterprises are considered as a source of dynamism for economic activities in Japan. SMEs have been creating value in Japan. Fourth, SMEs are key actors in local economic development. It can be easily understood that SMEs form the foundations of the Japanese economy and that substantial (re)vitalization of the Japanese economy is impossible without the (re)vitalization of SMEs. SMEs are expected to become the main actor not only in the local economy but also in the local society.

The business environment for SMEs has been changing dramatically during the past five decades. Government policy to support SMEs has also been forced to change. A summary of SME development policy is presented here, after considering how the policy has changed. Supportive programmes for SMEs undertaken by the local government are also discussed in the case of Nagoya City, where its evolving economy is given attention.

Definition of SMEs

There are several discussions on definition of SMEs. In Japan, SMEs are defined under the SME Basic Law. According to the 1999 SME Basic Law, the definition is based on quantitative considerations such as capital size and the number of employees (see Table 2). Much attention has been given to the

growing number of innovative and entrepreneurial venture enterprises, which pioneer and create new markets in Japan. In most cases, the venture enterprise is an SME and has a high potential for growth in Japan.

Table 2: Definition of SMEs

Industries	Capital Size (in million)	Number of Employees
Manufacturing and Others	300 or less	300 or less
Wholesale	100 or less	100 or less
Retail	50 or less	50 or less
Services	50 or less	100 or less

History of the Policy Environment for Promoting SMEs in Japan

SMEs were gradually recognized as a very important actor in the Japanese economy from the time Japan entered its rapid economic growth period in the 1960s. However, there were great differences in productivity and salary levels of employees between SMEs and large enterprises at that time. Modernization led to SMEs being left behind in adjusting to the new economic environment. The SME Basic Law was enacted in July 1963 as a basic legal framework to solve the problems which SMEs were facing. Supportive policies based on the trends and the surrounding environment for promoting SMEs were improved as part of national policy. The main objective of supportive policies at that time was to help SMEs as vulnerable entities, with programmes such as modernizing equipment, financing, ensuring management efficiency and training among others. Since then, programmes which support SMEs have been implemented according to the economic and social changes in the environment surrounding SMEs', such as, diversification of people's needs, rapid technical innovation, and development of tertiary industries. The programme included development of new products by design and technical innovation, aggressive promotion of trade and foreign investment, and so on.

Another important supportive policy was encouraging SMEs to organize themselves to facilitate economies of scale. The SMEs Cooperatives Act was enacted in 1949. Since then, cooperatives SMEs have been encouraged to take

advantage of opportunities in economic activities. In short, the establishment of cooperatives was promoted through government initiatives. Many cooperatives were established nationwide. The government intended to support SMEs indirectly through cooperatives enabling mutual aid among members. Local industries as well as traditional industries have also been promoted and supported through a group of local SMEs. In 1963, there were 23,851 business cooperatives in Japan. The number of cooperatives has increased during the following decades. They expanded their activities based on members' mutual cooperation. Their activities included joint purchase of resources, joint sales of products, provision of loans, welfare programmes, etc. The establishment of joint rules and advocacy activities were also vigorously implemented to improve SMEs' social status.

Systematization of SMEs through initiatives of large enterprises also took place during Japan's period of rapid economic growth. A pyramid structure of businesses was formed in the manufacturing process, especially in the manufacturing industries such as automobiles, machine tools, and textiles. The subcontractors formed the bottom of the pyramid with a large enterprise at the top. More than 60 per cent of SMEs in manufacturing industries were subcontractors in the 1980s, securing their positions by maintaining good relations with parent enterprise. However, in reality, subcontracting SMEs have been affected when parent enterprises faced difficulties, such as during oil crises, depressions and overseas expansion caused by a weakening Japanese yen. This structure has declined gradually as Japan became a mature economy undergoing rapid technical innovation. The number of business cooperatives steadily decreased since attaining a peak of 46,802 associations recorded in 1983. The system encouraging mutual assistance among SME as well as the system of subcontracting for parent enterprises had to change. SMEs are now expected to tackle the challenges of new business development and reorganization using their creativity and mobility, rather than pursuing economies of scale.

In the 1990s, there emerged recognition of SMEs as not just vulnerable entities in a dual structure composed of large and small enterprises, but also, as playing an important role in innovation, as the source of the Japanese economy's vitality and dynamism. In December 1999, the SME Basic Law underwent its first radical overhaul in 36 years, expanding the range of SMEs

eligible for support measures and enhancing support for start-ups and SMEs engaging in business innovation. The policy of SME systematization was also changed to include the idea of partnerships to promote the sharing of business resources, by organizing cooperatives not only among SMEs in the same industries but also among SMEs in different industries as well as with voluntary groups. In general, the policy framework supporting has shifted from uniform support through cooperatives to intensive encouragement of individual and constructive SMEs. SMEs can be empowered to develop of new technology through exchange programmes with different businesses and partnerships among industry, academia, and government. The substantial amendment of the SME Basic Law was a turning point that transformed SMEs into driving forces of the economy, instead of being an object of protection. However, the policy changes were meant to concentrate limited resources (in particular, budget) on SMEs while leaning out the smaller and weaker entities which form the majority of the industry at the same time. But this has resulted in widening the disparities among enterprises.

Next, we will examine the overseas expansion by SMEs. Since the beginning of the 1990s, the collapse of the bubble economy and the ensuing prolonged slump forced Japanese enterprises to further cut costs, accelerating the transfer of production operations overseas among large enterprises in particular. This changing business environment confronted some SMEs with the perilous decline of business within Japan, forcing them to decide for themselves whether to expand overseas. This process is still ongoing. Large enterprises are developing end-to-end production systems in East Asia that allow everything from development to parts procurement and production of consumer goods to be performed locally. They have increased the production of parts and materials sourced from within the host country or region in order to cut procurement costs. Due also to the growth of local manufactures of finished products, demand is growing for parts and machinery throughout East Asia. As a result of these changes, the establishment of operations in East Asia has become a necessary part of the growth strategies of SMEs as well. Private trading enterprises and financial institutions, as well as governmental organizations such as the Japan External Trade Organization (JETRO) and the Organization for SMEs and Regional Innovation, Japan (SMRJ) provide many supportive programmes for SMEs to expand overseas investment and trade.

In reality, there has also emerged a new recognition of the growing number of SMEs. In the 1970s, the main issue surrounding SMEs was that there were too many very small enterprises. However, the main issue today is the declining number of new business of start-ups since 1990s. According to the SME white paper, approximately 170,000 enterprises per year were established from 2001 to 2004, but approximately 290,000 enterprises per year were unable to continue operating. As a result, supporting programmes for new business start-ups were provided aggressively not only by the government but also by private companies. To assist those intending to start a new business in acquiring the necessary practical abilities, numerous classes and seminars were held, and incubation facilities have been increased rapidly. Public financing measures have also been maintained by many local governments. There are many business consultants and NPOs providing supportive programmes for new business start-ups. It can be said that supporting business start-ups itself has become new industry.

In 2002, legislation, including the Law for Facilitating the Creation of New Businesses, was amended under the Law for the Support of SME Challenges to allow exemptions from the minimum capital requirements for corporations (dubbed the "One Yen Start-up System") in order to provide support for start-ups and new SME business ventures. The Law on Supporting Business Innovation by SMEs was revised in 2005 in order to establish the Law for Facilitating New Business Activities of SMEs, and support for "new partnerships" undertaken by business in different fields as a means of effectively combining their respective business resources was initiated. Meeting challenges to the new business through SME partnerships, and supportive measures for their efforts, are very important for revitalization of the local economy. The measures to revitalize the SME sector carried out in 2006 by the Ministry of Economy, Trade and Industry (METI) were in the following five areas comprising the "pillars" of the recovery; 1) supporting manufacturing SMEs in high technology areas, which in turn supports the growth of the manufacturing industry in Japan; 2) securing and developing human resources for SMEs; 3) helping SMEs tackle the challenges of new business development and reorganization; 4) facilitating SME financing; and 5) revitalizing shopping districts and city centres. As Japan enters the era of mass retirement of workers who have contributed to rapid economic growth, METI is encouraging the development of developing human resources for the

next generation and local revitalization. The Regional Resources Utilization and Enterprise Development Programme was established in 2007. METI started to support the development of new products and services fully utilizing local technology and local resources. It is a policy to support the development of local economies, in collaboration with the local government and local SMEs.

With economic globalization, SMEs have been forced to expand their business regardless of their location to survive the competition. However, since traditional business activities utilizing local resources within the locality have been decreasing, the business environment for local economies such as shopping districts has increasingly become more difficult. In addition, social problems affecting the local environment, such as the progressive aging of the population, the collapse of local communities, bullying and abuse of children are taking place. Corporate Social Responsibility (CSR) is also expected to be practiced by every enterprise. In this context, SMEs have come to better appreciate the importance of regenerating the society. For instance, systems combining work and parenting such as in providing maternal leave benefits have not been established in smaller enterprises. However, since smaller enterprises tend to overcome the hurdles by responding flexibly to changing working conditions such as through arranging working hours according to an employee's individual circumstances, the turnover rates for women with children is lower in SME than in large enterprises. There are studies showing that long-term impact on promotion declines as enterprise size decreases (Fujitsu Research Institute, Business Survey Regarding Small Business Support for Balancing Work and Family 2005).

Currently, some SMEs with the same objectives are cooperating and taking the initiative to enhance their competitiveness and attractiveness through local branding. A "local" or "regional" branding strategy is considered as a potential marketing alternative to develop a niche market and achieve global/local competitiveness. Local/regional branding strategies promote excellent products and goods that make the most of each region's distinctiveness through an agreed branding or trademark approach. This strategy strengthens the competitiveness of regional industry by increasing the value of products and enterprises and local/regional brand formation. The brand could relate to the locality or region overall, or be specific to particular product categories,

niches, or modes. The concept of a regional brand involves branding special products or services in the region as well as branding the image of the region, its culture, and history. Thus, the establishment of local/regional brands requires three perspectives: a local/regional perspective, a products perspective, and consumer perspective. Products cannot become competitive without a high value added. Products cannot remain sustainable without gaining the preference and confidence of consumers. Products should reflect ownership of, pride in, and solidarity with the local/regional culture. Products can be marketable with the flavour and vitality of the local/regional characteristics. Good practices can be observed all over the Japan, where local artisans and local owners of SMEs have collaborated and succeeded in the development and sales of new brands. They are making good use of national and local government support programmes, with SMEs initiating and promoting projects. Good practices include the Yamagata Carozzeria Project which has succeeded in creating new products making good use of local traditional technology with the support of well known designs industry from the region, the Textile Bishu Brand that was created through the collaboration among textile SMEs facing crises in the Owari region, the Arimatsu Brand of new fashion created by the traditional tie dyeing craftsmen, among others. In addition to local branding, the significance of design is also to be emphasized all around the world. The design itself triggers the expansion of market channels or development of niche markets.

Furthermore, community business has increasingly become the focus of attention as an important factor in local economic development. Community business includes business activities aimed at addressing individual, various, and numerous problems which are increasing in the community against the background of the collapse of local society, which are difficult for the government as well as profit-oriented enterprises to address. Community business not only provides working opportunities to vulnerable people such as women and the elderly but it also promotes the revitalization of the local economy, since it promotes business based on social relationships and social capital. However since community businesses operate very small scale, the government has not understood their importance. Community businesses need to prove that they can contribute to the local industry. Japan has a long history of supporting SMEs (supportive measures for SMEs have been an important policy area for elected representatives). Non-Profit Organizations (NPOs) are

increasing as providers of community business, but NPOs are unable to use supportive measures for SMEs in practice. The establishment of effective supportive measures is required for further promotion of community businesses. Local governments have started to examine how they can support community business as in place of the national government, because community businesses are closely connected to local revitalization which is one of the major issues for local governments. Thus, community businesses represent a potential area for SMEs' contributions to the local economy. In fact, according to "the 2004 White Paper on SMEs in Japan," "community businesses are entities mainly formed by local residents in order to respond closely to local problems that cannot be solved within the conventional framework of public administration (the public sector) and private-sector commercial activities. In addition to the goal of contributing to society, a strong emphasis in community businesses is on their continuation as businesses, setting them apart from volunteer organizations." Their main characteristics are that: "(1) the main actors are local residents; (2) they do not have profit maximization as their objective; (3) they provide goods and services to meet the needs of residents and problems of the community; (4) they provide places of work for local residents; (5) they are continuous businesses or entities; and (6) they are independent from local government both financially and in terms of personnel." In reality, locally residents, local-based organizations and SMEs are very active in the area of community business. From this perspective, community business is expected to provide employment opportunities as well as to revitalize the local economy.

Additionally, to enhance the competitiveness of SMEs, the division of labour and advantages of specialization through formation of clusters and linkages among enterprises including SMEs, will be important. Clusters originally means bunches of grapes and is used to mean a group or a gathering. In this context, METI has been promoting the Industrial Cluster Programme since FY2001. The basic idea of the programme is to develop a business environment that facilitates of innovations in respective regions. This programme is a project through which regional SMEs (world-class SMEs) and new venture enterprises take advantage of resources to form industrial concentration (industrial clusters) in the information and communication technology, bio-technology, nano-technology, environment technology, and manufacturing sectors, aiming to strengthen the competitiveness of Japanese

industry. In forming industrial clusters, innovation is the key. Innovation is particularly expected to exert a significant impact on the economy and society through the marketing of competitive products and commodities based on new technologies and ideas.

Legal and Regulatory Framework for Promoting SMEs

As described earlier, in Japan there are several fundamental laws on SME promotion, as well as a relevant policy framework and several supportive policy measures. In addition, governmental institutions were also established.

The SME Agency under the METI is the body that mainly deal with SME-related issues in Japan. The task of the SME Agency is to provide strong support to dynamic and active SMEs with pioneering spirit because they are the driving force behind economic (re)vitalization and job creation. To this end, the Agency will integrate and upgrade existing laws and regulations, and support new partnerships among SMEs, backing them in their efforts to start up new businesses or open up new markets. At the same time, the Agency will continue to upgrade the financial safety net and provide necessary (re)vitalization support to enable SMEs to secure their own space where they can play active roles.

In terms of legal framework, the first SME Basic Law was enacted in 1963 and subsequently revised in 1973, 1983 and 1999. This 1999 amendment relates to the shift of its basic policies from "rectifying disadvantages" to "promoting diverse and vigorous growth and development of independent SMEs." It is recognized that SMEs are not weak entities, but represent a driving force behind a dynamic Japanese economy. According to the 1999 SME Basic Law, the policy concept is to develop and support the growth of a wide range of independent SMEs to promote greater economic vitality. SMEs are highly expected to create new business, to promote market competition, to increase attractive job opportunities, and to revitalize regional and local economy.

Table 3: Comparisons of the SME Basic Law

	The Previous SME Basic Law	1999 SME Basic Law
SME	- A weak entity	- The driving force behind a dynamic economy
Policy Concept	- Rectify the gap between LE and SMEs in terms of productivity	- Develop and support the growth of a wide range of independent SMEs to promoter greater economic vitality
Policy Goal	- Promote fewer but larger SMEs - Promote collaboration among SMEs	- Promote self-help efforts of independent SMEs - Promote business innovation
Policy System	- Upgrade structure of SMEs (improving productivity) - Address disadvantages (improving trading conditions) - Finance and taxation (common policy tools)	- Support self-help efforts for business innovation and start-ups (support for ambitions enterprises) - Strengthen management base (enhancement of management Resources) - Facilitate appropriate response of enterprises to abrupt environmental change - Finance and taxation (common measures)

Source: Website of SME Agency.

Table 4: Major SME-related Laws

Name of Law	Originally enacted
Small Business Credit Insurance Law [Act No.264]	1950
Small Business Finance Corporation Law [Act No.138]	1953
SME Financial Assistance Law [Act No.115]	1956
SMEs Association Organization Law [Act No.185]	1957
Law Regarding Mutual Relief for Worker Retirement in SMEs [Act No.160]	1959
SME Basic Law [Act No.154]	1963
SME Support Law [Act No.147]	1963
SME Investment and Promotion Company Law [Act No.101]	1963
Law on Ensuring Government Procurement and Contracts for SMEs [Act No.97]	1966
Law on the Promotion of Subcontracting SMEs [Act No.145]	1970

Table 4: Major SME-related Laws

Name of Law	Originally enacted
Small and Medium Retail Business Promotion Law [Act No.101]	1973
Law for Facilitating New Businesses of SMEs [Act No.18]	1999
Law on Organization for SMEs and Regional Innovation, Japan [Act No.147]	2002
Law concerning the Enhancement of the Fundamental Technologies for SME Creativity (SME Technological Advancement Law) [Act No. 33]	2006

There are two different approaches in promoting SMEs. One approach is to protect the socially disadvantaged SMEs, while the other approach is to encourage SMEs with growth potential leading to national and local economic development. In this context, the policy framework for promoting SMEs is aimed at a) supporting self-help efforts and promoting new business start-ups and business innovation (supporting ambitious enterprises); b) strengthening the management base of SMEs (enhancing management resources); and c) facilitating smooth adaptation to economic and social changes (providing a necessary safety net).

Based on the information on SME policies , supportive policy measures can be summarized as follows.¹

1. FACILITATION OF FUNDING AND ENHANCEMENT OF EQUITY CAPITAL

Difficulty in procuring funds is one of the managerial issues for SMEs, which in most cases private financial institutions find unattractive as loan recipients. As a result, there were not enough funding sources for SMEs. Thus, financial institutions that can provide a stable supply of fixed long-term and low-interest funds to SMEs regardless of fluctuations in the economy were needed in the form of governmental financial institutions. In response to this situation, the State strengthened the functions of governmental financial institutions. To meet above-mentioned needs, financing supports has been provided by the Japan Finance Corporation for Small and Medium Enterprise (JASME), the National Life Finance Corporation (NLFC), the Shoko Chukin Bank and others. In accordance with policy needs at different times, these SME financial institutions also have a role in areas where market mechanisms do not apply,

extending special loans with advantageous conditions such as reduced interest rates and flexible demand for collateral and guarantee.

In addition to this, the credit guarantee system aims to offset the insufficiency of credit and security for SMEs and facilitate funding. The State has developed credit enhancement mechanisms, directed private financial institutions to lend to SMEs, and taken any other necessary measures. System to supplement credit is provided by JASME and Credit Guarantee Corporations (CGCs). Enhancement of capital is undertaken by the Small and Medium Business Investment & Consultation Co. Ltd. (Tokyo, Nagoya, Osaka).

2. SUPPORT FOR BUSINESS START-UPS

The Japanese economy has been increasingly characterized by a diversification of consumer needs, intensification of price competition, and internationalization under a globalizing economy, accompanied by a reverse phenomenon with regard to the ratio of start-ups to business closures, provoking serious concern about stagnation of the country's economic dynamism and vitality.

In such circumstances, active support for start-ups and launching venture businesses are critically required in order to counteract stagnation, revitalize the economy, and create opportunities for employment. It is also expected that SMEs will lead the entire Japanese economy toward economic revitalization through business innovation and managerial improvement.

In this light, to facilitate a smooth start-up and business operations for SMEs starting up businesses, those at the initial stage of business opening, and those that are actively engaged in creative business activities such as the development of new products or services, the State has been providing comprehensive support with respect to funding, human resources, management know-how, information, technology development, etc., according to the level of their development. In addition, the State has been enhancing SME's capacity through training programmes on business start-ups.

In reality, there are several supporting measures: those based on "the Temporary Law concerning Measures for the Promotion of the Creative

Business Activities of SMEs", those based on "the Law for Facilitating the Creation of New Business", support through financing and taxation, support through funding and advise on start-ups, fostering entrepreneurship through organizing meeting and events, strategic utilization of retirees, and support for creative technical development by SMEs.

3. SUPPORT FOR BUSINESS INNOVATION

Business innovation has become important in responding to the diversification of consumer needs, intensification of price competition, advances in Information Technology (IT), and economic globalization. Innovation is aimed at substantive managerial improvement through the development and manufacture of new products, the development and provision of new services, the introduction of new methods and techniques of production and sales, the introduction of new methods and techniques of providing services, and the formulation and implementation of other new business activities. The State broadly supports business innovation in SMEs of all categories that are taking on the challenge of contemporary management issues. For instance, support under "the Law on Supporting Business Innovation of SMEs" and matching human resources for business innovation are provided.

4. STRENGTHENING OF THE MANAGEMENT BASE

Improving the business environment and management system for SMEs is becoming a crucial issue. The State provides SMEs with appropriate advice on solutions to their managerial issues and the smooth acquisition of management resources, attentively responding to their widely diverse needs. The State also takes appropriate measures to contribute to the securing of business resources necessary for reinforcing the business infrastructure of SMEs such as improvement of business methods and development of technologies. In this respect, the SME Agency has utilized three types of SME Support Centres: SME/Venture Business Support Centres, Prefectural SME Support Centres, and Regional SME Support Centres. Additionally, it has appointed private citizens as consultants for overall SME management. The State also encourages exchanges and tie-ups among SMEs, as well as SME business cooperatives in order to facilitate SMEs' complementation of each other's business resources. The State is also promoting industrial agglomeration under

"the Law on Temporary Measures concerning the Activation of Specific SMEs."

5. SUPPORT FOR TECHNOLOGY DEVELOPMENT

In spite of their own views and preferences, SMEs often have difficulties in obtaining by themselves all of the necessary management resources such as technology, funds, and information, and are limited in their approach to human resource development.

In order to overcome such difficulties and limitation and to promote the development of independent and creative SMEs, the State has been providing various types of support, which are as follows: a) active support for the self-help efforts of motivated SMEs in technical innovation; b) reinforcement of production technologies and technical development infrastructure, and promotion of smooth access to and use of management resources such as human resources, technologies, funds and information, which are insufficient in SMEs, and related support measures; c) enhancement of the potential of academia, industry, and government through promotion of collaboration, mutual exchange and education for production technologies and innovation; and d) holding of training workshops and seminars and improvement of the common infrastructure of SMEs to actively use IT and promote business innovation to cope with the IT revolution, which has been rapidly advancing.

6. NECESSARY INFRASTRUCTURE DEVELOPMENT

Finally, for SME promotion, physical infrastructure such as facilities for water supply, electricity, roads, and ports is required. Currently, Information and Communication Technology (ICT) infrastructure is also indispensable for further development. Furthermore, to ensure competitiveness, intellectual property infrastructure for supporting business is a must.

Supporting Programmes for SMEs by Local Government - The Case of Nagoya City

Both the national and local governments have provided various supporting programmes and systems for SMEs. For instance, in Nagoya, the city government established in 1907 a special section of the Commerce and Industry Division, providing supportive measures for SMEs. A cooperative association with various cooperatives in the city as members was established as an initiative of the city government in 1947. An association for shopping districts was also established in 1950. Various programmes to subsidize these cooperatives as well as many kinds of financing programmes for SMEs have been provided. These subsidy programmes have been criticized for wasting a lot of money, but they have been sustained until the present, with their contents having been changed according to the changes of their social roles.

Nagoya is located in the central part of Japan with 2.1 million inhabitants. Greater Nagoya (area within one hour from Nagoya) is an important manufacturing center for the automobile (Toyota is one of its leading companies), machine tool, aircraft and aircraft tool industries with a population of more than 11 million. Nagoya is often mentioned in many newspapers and magazines as the most dynamic area in Japan. The GDP of Greater Nagoya has exceeded the GDP of Taiwan. Aichi prefecture, of which Nagoya is the capital ranked first among Japan's cities of shipment of manufactured goods for 28 consecutive years.

SMEs, representing 99 per cent of business establishments in Nagoya, are playing a very important role in the local economy as well as in local society. Various institutions promoting SMEs, including the SMEs Promotion Centre, have been providing many programmes and services for financing, advising, organizing trade fairs, providing information, and assisting SMEs with product development. In addition to municipal support, there are many other supporting programmes provided by the national and prefectural governments as well as by economic organizations such as the Chamber of Commerce and Industry in Nagoya. Overlapping programmes in support of SMEs have the potential to be reorganized effectively through good partnerships among institutions.

The ratio of business closures to start-ups in Nagoya is higher than the Japanese average. To remedy this situation, the city government has put emphasis on supporting programmes to promote the establishment of new business, as well as to attract investment from outside city. SMEs are considered not only as recipients of support, but also as catalysts for the revitalization of local society. Innovative measures are also being carried out such as supporting programmes for start-ups to create new business development in cooperation with the locally revitalizing Machi-zukuri activities.

In Industry Revitalization Plan was established in March 2005 to turn the success of the EXPO Aichi 2005 into a drive to revitalize local industries as well and to further attract enterprises and industries as an international business city. The goal of this plan is to be developed an international business city to support the manufacturing heartland by promoting the establishment of industrial facilities as well as by supporting existing industries with step-up projects for ambitious SMEs. The six focus area are: 1) Manufacturing Technology, developing new products in which advanced technologies are integrated, such as automobiles, airplanes, robots, etc.; 2) Environment & Energy, developing environmentally friendly material such as photo catalysts, fuel cells, biodegradable plastics, etc.; 3) Medical, Welfare & Health, producing nursing care/health equipment through collaboration of the medical and technology industries; 4) Information Technology, application of ITS technology, digital content, information service, etc.; 5) Design & Fashion, industrial design, interior, fashion, etc.; and 6) Business Support Services, Consultancy, recruitment agencies, accountants firms, advertising agencies, etc. The following are major supporting programmes for SMEs provided by the Nagoya city government.

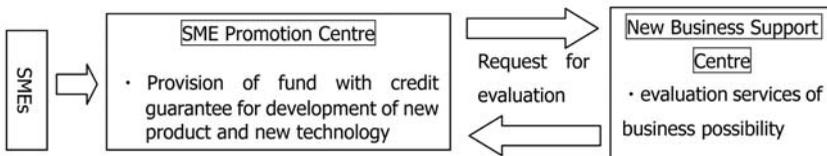
1. STABILIZATION OF BUSINESS AND FINANCING

The Nagoya SME Promotion Centre provides various services for SMEs such as business advisory services provided by lawyers and certified public accountants, as well as specialists in business training, information services and others. The Nagoya City Credit Guarantee Corporation and the Nagoya City Small Business Finance Corporation, organizations which are funded by the city government, also provide various funds and credit guarantees for

SMEs to enable them to access loans from banks without mortgages. Nagoya is a unique city hosting an institution, the Nagoya City Small Business Finance Corporation, which provides funds directly to very small enterprises (5 employees or less for the service industry, 20 or less for the manufacturing industry). The financing programmes include general funds for business operation, funds for the manufacturing industry, and funds for business start-ups , or among others. In providing credit guarantees, the national insurance programme is used, but the budget for financing is huge, accounting for approximately 50 per cent of the budget for industry promotion.

2. HELPING SMEs FACE THE CHALLENGES OF NEW BUSINESS DEVELOPMENT

The Nagoya New Business Support Centre, established within the Nagoya Urban Industries Promotion Corporation, a city government funded institution, provides various services such as advisory services for new business development and business start-ups, feasibility studies, business matching, forums for student ventures, business plan seminars etc. for SMEs. The New Business Support Centre cooperates with institutionalized financing for the challenge of new business in the fields of environment, medical and information technology.



3. PROMOTION OF COLLABORATION AMONG INDUSTRY, ACADEMIA, AND GOVERNMENT

The aim of collaboration is to create new industries. Joint research and forums to exchange opinions with participation of enterprises, universities and research institutes have been organized in the fields of manufacturing technology, environment, medical, welfare & health, and information technology. The "Wooden Biological Mass Electric Power Generation Project", which converts organic waste into high temperature gas, was

developed through the collaborative project and was introduced as a new business at the Aichi EXPO. Exchange programmes such as exhibitions and forums have also been organized to introduce new technology and new products developed by universities and SMEs, with the cooperation of the Aichi prefectural government and the Nagoya Chamber of Commerce and Industry.

4. ORGANIZING INDUSTRIAL EXHIBITIONS

Trade fairs and exhibitions which have multiplier effects on the economy, have been organized or hosted by the international exhibition halls, owned by the city government and business opportunities are provided for SMEs. These include the exhibition of mechatronics equipment, welfare and health equipment and services, and new technology, materials and products of photo catalyst. "Messe Nagoya", the exhibition of environmentally friendly technologies has also been organized with the collaboration of the Chamber of Commerce and Industry.

5. SUPPORTING PROGRAMMES FOR THE EXPANSION OF OVERSEAS INVESTMENT AND TRADE, AND CITY GOVERNMENT PROMOTION OF URBAN INDUSTRIES AND FOREIGN INVESTMENT

An advisory office has been established in Shanghai, China, to support SMEs which are planning to setup offices or factories, as well as to expand the trade in and with China. SMEs which have a head office in Nagoya, can take services such as legal and taxation advice and, business information on China among others. City promotion programmes to encourage investment in Nagoya have been actively undertaken through a set of measures that include provision of subsidies to companies' buildings, factory or research institutes, and setting up office among others. Subsidies for foreign companies setting up offices and factories in Nagoya are also provided.

6. PROMOTION OF DESIGN APPLICATION

Nagoya is proud of its rich tradition in design, having been declared as the "Design City" in 1989. The International Design Centre, Nagoya (idcN) was established and funded by the city, prefecture and the business community.

The idcN has been developed as a center where SMEs can deepen their understanding of design and to make good use of design not only to meet present needs, but also for the development of business strategy. The programme for SMEs includes design consulting, and providing designers to give for advice on new product development, among others.

7. PROMOTION OF THE FUSHIMI CHOJAMACHI VENTURE TOWN CONCEPT

This is a very unique project supporting start-ups of businesses with the collaboration of the local community. The Fushimi-Chojamachi area is located in the centre of downtown between the Nagoya station and the Sakae, shopping areas. This area was developed as one of the big three textile wholesale districts in Japan after World War II. However, since many wholesale businesses have gone bankrupt or closed due to the changes in the production and distribution systems for textile, the district has lost its dynamism and many buildings and shops had to be closed. There was a sense of crisis among local people and wholesalers who feared that the district might become a night entertainment district. Local people started a revitalization project on their own initiative. The city government believed that synergies can be achieved through collaboration with the local population, and so launched the venture town concept as part of the city industry revitalization plan in 2005, aimed at the integration of urban industries such as design, fashion, and digital content within this area. To support the efforts of the local population, the city provides subsidies to repair old vacant buildings and provide small offices for ventures and subsidies for rent among others. At present, approximately 20 ventures (small companies) have started their business in two model buildings which have been opened under this project. 2-3 buildings per year will be repaired and provided for ventures until 2010.

8. DEVELOPING BUSINESS FOR VENTURES BY OPERATING INCUBATION FACILITIES FOR START-UPS

At present, the city operates seven incubation facilities to support ventures in cooperation with associated institutions. The programme, which is provided for tenant companies includes subsidy for rent and advisory services by managers, among others. Each facility has a target business area for tenant

ventures. The target areas include computing software and system development, medical, biotechnology, health, and welfare, and design related SMEs etc. In particular, one unique and original undertaking by the city is the operation of incubation facilities using a former elementary school building which was closed due to depopulation. This facility provides offices for small entities which are willing to start community businesses. A NPO is selected as a manager to provide daily services for tenants. The city also supports the revitalization project for the shopping district by providing opportunities and subsidies for ventures of community businesses to set up offices using vacant spaces in the shopping district.

9) SUPPORTING MANUFACTURING SMEs THAT POSSESS HIGH LEVELS OF TECHNOLOGY, RESEARCH & DEVELOPMENT, AND DEVELOPING HUMAN RESOURCES FOR SMEs

The Nagoya Science Park has been developed to promote research and development in leading industries of the next generation, based on Nagoya's traditional manufacturing industries. Facilities are provided for ventures starting new businesses in cooperation with universities and research institutes. A site for research and development facilities has also been provided. Business structures bridging new technology to local industries, have been organized here. The Nagoya Municipal Industrial Research Institute provides technical support to SMEs in manufacturing industries. The programme includes technical consulting services by institute staff assigned to SMEs, various tests of quality and performance of materials, rent facilities and equipments and commissioned research for SMEs and so on. The institute is also engaged in the development of new technology such as manufacturing technique lightening of automobile parts, and development of new materials such as biodegradable plastics. The city provides subsidies for SMEs to undertake for cooperative research and development of new products in high-technology industries, and subsidies to obtain patents.

10. DEVELOPING HUMAN RESOURCES FOR INDUSTRIES, NAGOYA MONO-ZUKURI (MANUFACTURING) COLLAGE

The mass retirement of baby-boomers has started. Fearing a shortage of workforce as well as of technological expertise and skills, the city supported

OJT (On the Job Training) and in-house programmes to transfer technical expertise and skills to SMEs. Securing and developing human resources for next-generation SMEs in manufacturing industries, supporting programmes such as technical practice at the industrial high school have been provided. The city also encourages students to become interested in the manufacturing sector, and local manufacturing SMEs providing internship programmes for high school and university students. Retired skilled workers are also employed as trainers. At present, 70 retired skilled workers are registered as technical advisers and are providing professional training in the field of plating and plastic. They also organize management training for managers, including those of next-generation of SMEs.

Possibilities of One Village One Product Movement

In promoting SMEs, one of the interesting and integrated policy packages is the "One Village One Product (OVOP)." The OVOP movement was advocated by the then governor of Oita prefecture, Morihiko Hiramatsu, in 1979 as a local revitalization movement when the Japanese economy remained sluggish after the oil crisis that hit the nation in 1973. Around that time people were becoming aware of the negative effects of the period of high economic growth - such as environmental pollution, widening regional disparities, depopulation of rural areas, and the problems of an aging society- and began to seek endogenous forms of regional development. In those days, the Oita prefecture's economy was struggling for a number of reasons: (1) The prefecture was financially dependent on the national government to a great extent and more businesses were moving in while fewer businesses were moving out; (2) The prefecture's economic structure was not well balanced, with only a small number of manufacturers; (3) The prefecture's average level of income was lower than the national average and there were large disparities in revenues among its municipalities; and (4) Lastly, the prefecture had many depopulated areas. Then the oil crisis occurred. Even after exogenous development projects seemed to have reached their limit, local people clung to their dependence on support from external authorities. Thus, the major challenges for Oita Prefecture were: (1) halting the depopulation trend and revitalizing the sluggish economies of rural areas, which resulted from the

concentration of the population in cities; (2) creating new businesses for the revitalization of rural areas by taking advantage of local features; and (3) changing the mentality of local people to relinquish their overdependence on authorities and motivate them to develop a greater sense of self-reliance.

Under these circumstances, Governor Hiramatsu put forward the idea of OVOP, aimed at invigorating Oita, which was suffering from depopulation problems. The OVOP concept required people to take up one product that reflected their pride in their community. Although this movement was a kind of spiritual campaign, it was also intended to revitalize local industries. Mr. Hiramatsu intended that through continuous efforts to develop products that people took pride in and that reflected potential local wisdom and local resources, communities would be inspired to achieve a form of self-reliant community development without dependence on central government subsidies or ready-made business solutions from corporations outside the prefecture. Considering that the OVOP concept required people to develop independent ways of thinking, it could be heavily emphasized that its ultimate goal was to foster human resources.

After more than 25 years' experiences and achievements, currently and internationally, OVOP is widely recognized as one of the most responsive strategies of poverty alleviation and local revitalization in developing countries. Japan has recently announced a comprehensive development package, the "Development Initiative for Trade," with a view to promoting the development of developing economies and helping benefit from the multilateral trading system. As part of this initiative, the Government of Japan supports initiating the OVOP movement in developing economies, in particular, those in Asia and Africa.

Conclusions

SMEs from the foundations are considered as a source of Japan's economic dynamism. SMEs have been playing very significant roles in the vitality of the Japanese economy and in social stabilization. The State and local governments have been setting up necessary supporting measures and related institutions

for promoting SME development. Even though major challenges remain for SMEs to adapt to dynamic changes and transformations in the economic and social environment, it should be recognized that with the globalization of the economy, SME promotion utilizing local resources and social networks without heavily depending on national government is very important to achieve long-term sustainable local economic developments.

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Notes

1. Small and Medium Enterprise Agency, http://www.chusho.meti.go.jp/sme_english/index.html