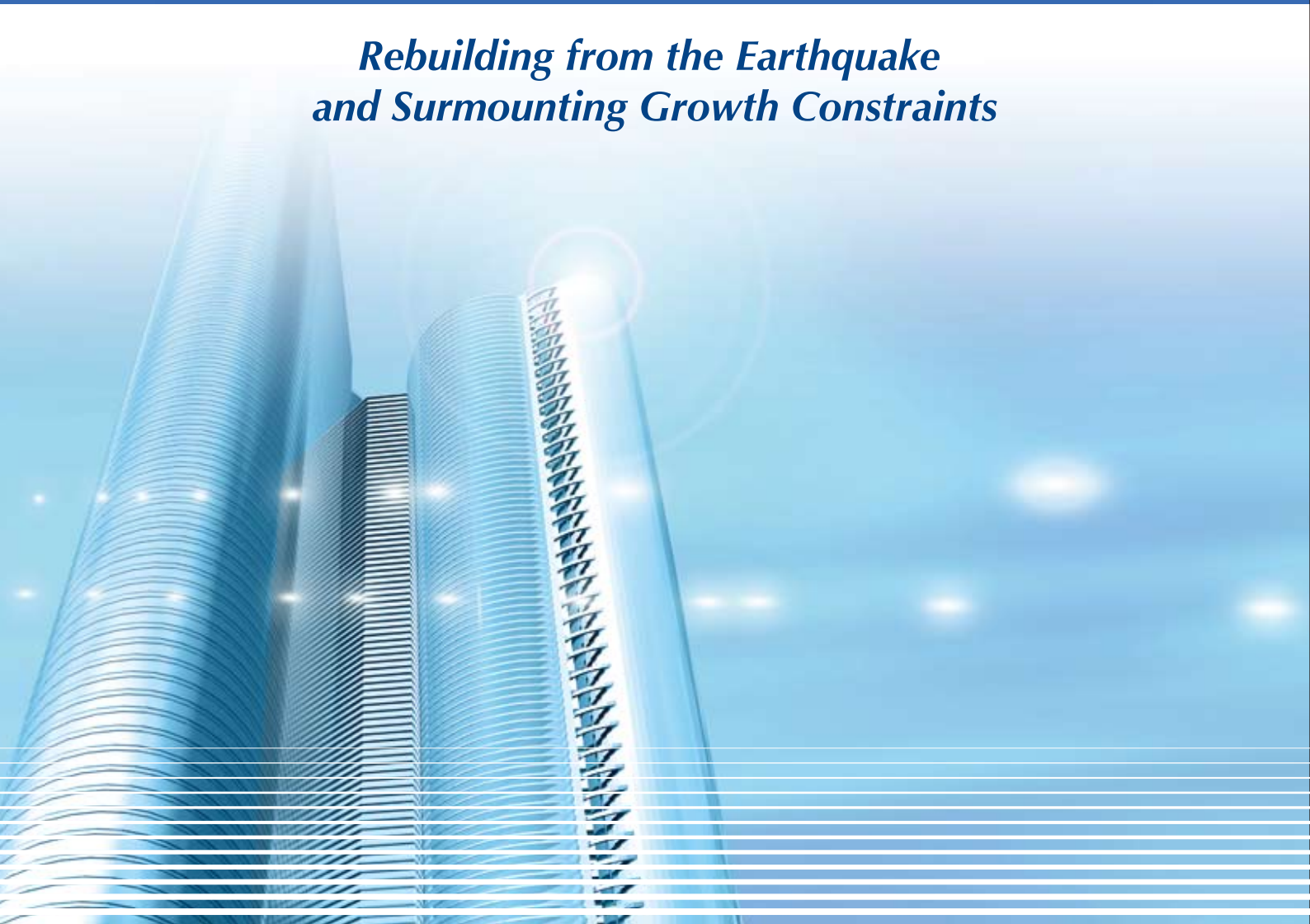




2011

WHITE PAPER ON SMALL AND MEDIUM  
ENTERPRISES IN JAPAN

*Rebuilding from the Earthquake  
and Surmounting Growth Constraints*



**JSBRI**

JAPAN SMALL BUSINESS RESEARCH INSTITUTE

# **2011 White Paper on Small and Medium Enterprises in Japan**



Rebuilding from the Earthquake and  
Surmounting Growth Constraints

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*Ministry of Economy, Trade and Industry*  
**and**  
*Japan Small Business Research Institute*

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**Edited by**

**SMALL AND MEDIUM ENTERPRISE AGENCY  
MINISTRY OF ECONOMY, TRADE AND INDUSTRY**

**Translated by**

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**Contact Information**

Editor: Kunio Maeda  
Associate Editor: Toshiaki Tokita  
Mailing address: International Exchange Department  
Japan Small Business Research Institute  
Sanbancho-KS Bldg., Sanbancho 2  
Chiyoda-City, Tokyo 102-0075  
Japan  
Tel: +81-3-3222-3431  
E-mail: [info@jsbri.or.jp](mailto:info@jsbri.or.jp)  
URL: <http://www.jsbri.or.jp>

# Foreword

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This report is a complete English translation of the *2011 White Paper on Small and Medium Enterprises in Japan: Rebuilding from the Earthquake and Surmounting Growth Constraints*, which describes recent trends and other important information concerning SMEs in Japan. It was translated and published by the Japan Small Business Research Institute with the approval of the Small and Medium Enterprise Agency, which produced and submitted the original to the Diet.

Over six months have now passed since the Great East Japan Earthquake struck on March 11, 2011, plunging the Japanese economy, still gradually recovering from the Lehman crisis in 2008, into a crisis of unprecedented proportions. Around 780,000 enterprises were located in the quake-affected areas and 38,000 in the tsunami-affected areas, and virtually all were small and medium enterprises (SMEs).

These disasters not only affected enterprises directly, but also had a profound impact on supply chains due especially to stoppages at affected enterprises and the destruction of transport infrastructure. The deterioration of consumer sentiment due to the mood of self-restraint that emerged out of consideration for the affected areas and action to save electricity due to the power situation spread to engulf the whole of Japan.

Faced by these circumstances, much encouraging action is being taken toward reconstruction by a variety of businesses. These include regional banks that are helping local SMEs to remain in business despite having themselves suffered damage, local retailers that are overcoming the negative effects of harmful rumors to market local products, and manufacturers that have succeeded in speedily recommencing shipments thanks to active collaboration among local enterprises.

Positing SMEs as constituting the foundations of industry and everyday life, this report makes use of extensive national surveys and government statistics, further fleshed out by visits to numerous SMEs, to demonstrate that SMEs lie at the source of the Japanese economy's growth.

As in previous years, the SME policies being implemented by the Government of Japan are summarized at the end of this report, thus providing the reader with an understanding of the measures being taken by the authorities to support SMEs in all kinds of respects, including by facilitating SME finance, supporting the creation of employment opportunities and revitalization of local communities, and promoting the development of technologies.

I hope that this report will help researchers and others with an interest in SMEs throughout the world to gain a better understanding of measures and trends concerning SMEs in Japan, and that it also contributes to SMEs' worldwide development.

Masataka Nakano

Chairman

Japan Small Business Research Institute

November 2011



# *On publication of the 2011 White Paper on Small and Medium Enterprises in Japan*

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I must first express my heartfelt condolences to the victims of the Great East Japan Earthquake, and my sincere gratitude for the ceaseless efforts of those involved in the reconstruction of the affected regions.

The Great East Japan Earthquake was in a very real sense a “crisis in the midst of stagnation,” striking as it did at a time when the economy already faced difficulties due, for instance, to a shortage of demand caused by population decline, the falling birthrate, and demographic aging, and growing competition from emerging economies. The tsunami, earthquake, and nuclear crisis caused immense damage to large numbers of small and medium enterprises (SMEs).

As became apparent in the process of post-quake recovery, SMEs occupy a pivotal position in Japan’s supply chains, underpinning the Japanese economy. They also play an important role supplying everyday necessities and sustaining our daily lives. In this sense, the recovery and development of SMEs is essential to the sustainable growth of the Japanese economy.

This report describes the financial support and other measures being implemented by the Japanese Government to ensure the swiftest possible recovery of SMEs that have been affected by the earthquake and associated disasters. It also demonstrates the importance of the following to SMEs’ future development:

- 1) Promotion of startups and changes of business leading to economic renewal and job creation;
- 2) Raising of labor productivity to help cope with the effects of population decline, the falling birthrate, demographic aging, and energy supply constraints; and
- 3) Targeting of international business opportunities to offset sluggish domestic demand.

Reflecting the findings of the analyses described in this report, the Government is committed to assisting the recovery and development of SMEs.

I hope that this report deepens understanding among the wider public of the conditions and challenges faced by Japanese SMEs, and that it also serves as an aid to SME proprietors as they navigate their way into the future.

**Banri Kaieda**  
Minister of Economy, Trade and Industry  
July 2011

The *2011 White Paper on Small and Medium Enterprises in Japan* consists of the following two reports submitted by the Government to the 177th Session of the Diet pursuant to Article 11 of the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963):

“Trends among Small and Medium Enterprises in Fiscal 2010”

“Small and Medium Enterprise Policies in Fiscal 2011”

# Outline of the 2011 White Paper on Small and Medium Enterprises in Japan

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The Great East Japan Earthquake on March 11, 2011, caused tremendous damage to SMEs, including the destruction of industrial infrastructure by the tsunami and earthquake itself, damage to plants and stores, and business stoppages resulting from the nuclear crisis in Fukushima, and the ensuing disruption of business due to the earthquake's impact on suppliers, deterioration of consumer sentiment, and decline of sales spread to affect the whole of Japan.

These difficult circumstances constitute the backdrop to this report, which begins with an analysis in Part I of recent trends among SMEs and the impact of the earthquake and associated disasters on them. This is followed in Part II by an examination of the important role played by SMEs in the Japanese economy and society, recognition of which has been renewed by the earthquake. Part III then explores directions in the recovery and development of the SMEs that will make a key contribution to Japan's economic growth.

## Part I Recent trends among SMEs

The first part of this report describes trends in indicators of business conditions, financial position, employment, and so forth among SMEs in fiscal 2010.

- While SMEs' business conditions and production showed signs of picking up, they worsened considerably following the earthquake. Financial positions are also deteriorating considerably, and the unemployment rate remains high. The yen's increasing appreciation and escalating crude oil prices also present future risks.
- The earthquake caused tremendous damage to SMEs, including the destruction of industrial infrastructure by the tsunami and earthquake itself, damage to plants and stores, and business stoppages resulting from the nuclear crisis in Fukushima, and the effects of the ensuing disruption of business due to the earthquake's impact on suppliers and the decline of sales due to the mood of restraint and deterioration of consumer sentiment spread to engulf the whole of Japan.

## Part II SMEs' role in sustaining the economy and society

Part II reaffirms the key role played by SMEs in the economy and society, and analyzes how their virtues can be maintained in the face of the rapid economic downturn and deepening structural challenges.

- SMEs account for 99.7% of all enterprises and around 70% of all jobs. They sustain Japan's industrial infrastructure by, among other things, creating extensive value added and occupying core positions in supply chains. They also underpin local consumption and society by supplying daily necessities and serving as the hubs of their communities. The earthquake has renewed recognition of their importance.
- In the face of deepening structural challenges due to the earthquake such as the shrinkage of domestic demand and intensifying global competition, the outlook for some SMEs looks bleak. It is therefore necessary to ensure that the virtues of these pillars of the economy and society are preserved and translated into future economic growth through, for example, measures to assist business transfers, restructuring, and community-based finance.

## Part III SMEs as generators of economic growth

The final part of this white paper analyzes the current situation and obstacles regarding startups, changes of business, improvements in labor productivity, and the taking up of international business opportunities, all of which offer ways in which SMEs can contribute to the ongoing growth of the Japanese economy in the face of the severe conditions created by the earthquake.

- Given the increase in bankruptcies and closures of large numbers of SMEs due to the earthquake, startups and changes of business must also be promoted to assist in the process of economic renewal and job creation. The main problems encountered when starting or changing a business revolve around the raising of funds, hiring of human resources, and securing of customers. To succeed, however, entrepreneurs need to take practical steps to make use of their past experience and personal connections, to secure the customers and resources that they need, etc.
- Following the earthquake, Japan now faces tightened energy supply constraints on top of the challenges posed by population decline, the declining birthrate, and demographic aging. If the economy is to continue to grow, therefore, enterprises have to increase their labor productivity. Developing markets, human resources, and technologies takes comparatively longer to bear fruit than steps such as the introduction of IT, energy conservation, automation, and business process reform. As it can be difficult for SMEs to implement these and other measures to raise labor productivity under their own steam, effective support needs to be provided that takes account of their needs.
- Given the ongoing extremely severe environment created by the earthquake, SMEs need to take up business opportunities abroad, where markets are projected to grow. If SMEs are to globalize successfully, they need to do so by first ascertaining their own strengths and tastes in their target markets. SMEs that are not engaging in globalization can also take up international business opportunities without leaving Japan's shores by, for example, importing goods and services from abroad, doing business with foreign enterprises and affiliates, and supplying goods and services to foreign tourists.

In order for the SMEs that are the linchpins of the Japanese economy and society to rebuild from the Great East Japan Earthquake and for the Japanese economy to continue to grow, it is crucial that SMEs achieve further growth through startups, changes of business, improvements in labor productivity, and the taking up of business opportunities overseas.





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A company using creativity to resume local sake production	Otokoyama Honten Co., Ltd.	Kesenuma City, Miyagi Prefecture	39
A supermarket supporting consumption by local residents and contributing to the revitalization of local companies	Maiya Co., Ltd.	Ofunato City, Iwate Prefecture	39
A company positively hiring high school graduates from the disaster area whose tentative employment agreements were cancelled	Daiki Suisan Co., Ltd.	Sakai City, Osaka Prefecture	39
A financial organ helping SMEs to keep operating	Bank of Iwate, Ltd.	Morioka City, Iwate Prefecture	40
A company which resumed gas supply right after the nuclear power plant accident	Soma Gas Co., Ltd.	Minamisoma City, Fukushima Prefecture	43
A company that quickly repaired production lines and resumed full operations	Arena Co., Ltd.	Soma City, Fukushima Prefecture	43
A company that successfully cut electricity costs about 15% through conservation	Kuboco Corporation	Chiyoda City, Tokyo	46
A company that maintained its supply chain by supporting a supplier	Horio Seisakusho K.K.	Ishinomaki City, Miyagi Prefecture	49
A company which minimized the impact on business partners by bringing its molds to another company's factory to resume production	Iwanuma Seiko Co., Ltd.	Iwanuma City, Miyagi Prefecture	49
A company that made every effort to maintain automobile component supply capacity to fulfill its role as a supply manufacturer	Iwaki Diecast Co., Ltd.	Watari district of Miyagi Prefecture	49
A neighborhood store association's initiative to dispel consumer restraint	Koenji-Ginza Neighborhood Store Association	Suginami City, Tokyo	52
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Japan's leading printer of sake labels operating for nearly 100 years by always innovating ahead of the competition	Takakuwa Art Printing Co., Ltd.	Kanazawa City, Ishikawa Prefecture	75
A company that kept growing with a policy of manufacturing their own equipment	Hirotech Corporation	Hiroshima City, Hiroshima Prefecture	83
A company which expanded production of automobile parts using their proprietary precision casting production technology	Morikawa Sangyo Co., Ltd.	Chikuma City, Nagano Prefecture	83
A company that developed a modular press punch through government-industry cooperation which was adopted by a leading automobile manufacturer	Kyoyu Co., Ltd.	Tooda district of Miyagi Prefecture	88
A company which applied its insert molding technology to connector components, opening up a sales channel to a leading manufacturer	Best Co., Ltd.	Kitakami City, Iwate Prefecture	88
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A company which carries out customer-centered manufacturing with a self-reliance policy aimed at 100% in-house production	Yoshiizumi Industry Corporation	Hirakata City, Osaka Prefecture	89
A company that overcame the bankruptcy of its main customer and evolved into manufacturer of its own products	Kimioka Iron Works Co., Ltd.	Nara City, Nara Prefecture	92
A company with a 30% global share and a 60% domestic share of the alkaline battery insulating paper market	Hirose Paper Manufacturing Co., Ltd.	Tosa City, Kochi Prefecture	95
An SME that gained a 70% share of the domestic convenience store refrigerator and freezer case lighting market with a slim, energy-conservation fluorescent light bulb	Prince Electric Co., Ltd.	Yokohama City, Kanagawa Prefecture	96
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Case	Name of enterprise, etc.	Location	Page
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A shopping district aiming to become a multi-generational community center where everyone gathers	Kawanoe-sakae-machi Shopping District	Shikokuchuo City, Ehime Prefecture	120
A shopping district that revived by holding a night market and supporting new shops	Tatebayashi Shitamachi-dori Shopping District	Tatebayashi City, Gunma Prefecture	129
A shopping district developing numerous community-based businesses to secure shop owner revenues and employment	Towa Ginza Shopping District (Amour Towa Co., Ltd.)	Adachi City, Tokyo	130
A shopping district working to stimulate sales together with large stores nearby	Omotecho Shopping District	Okayama City, Okayama Prefecture	130
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A financial institution working hard for the advance of SMEs into agriculture business	Awa Bank, Ltd.	Tokushima City, Tokushima Prefecture	173
A financial institution where the president himself visits SMEs to build up personal relations	Hiroshimashi Credit Cooperative	Hiroshima City, Hiroshima Prefecture	173

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### ● SMEs as sources of economic growth

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A company that conducted highly detailed market analyses and achieved rapid high sales growth after startup	Generation Pass Co., Ltd.	Shinjuku City, Tokyo	191
A company which developed comprehensive outsourcing services for businesses and generated employment for 300 workers shortly after its startup	TKP Corporation	Chuo City, Tokyo	195
A company that designs and sells goods for raising children based on the founder's experience as a mother	Okinawa Kosodate-Ryouhin Co., Ltd.	Naha City, Okinawa Prefecture	200
An entrepreneur who used his personal network from his former job to secure superior elderly staff and give them purpose	Jinzai Center Yuzuriha Co., Ltd.	Minato City, Tokyo	202
A university venture where the entrepreneur used product development experience and personal connections from his former position to develop cell manipulation apparatus that contributes to new drug development and regenerative medicine	IWORKS Inc.	Toyonaka City, Osaka Prefecture	214
A company that had its proprietary technology and business model certified by the city, prefecture and national governments to successfully expand sales routes	1st Solution Corporation	Fukuoka City, Fukuoka Prefecture	214
A company that advanced into the medical equipment field using ultra-precision cutting technology	Hariki Seiko Co., Ltd.	Osaka City, Osaka Prefecture	217
A company which developed high-power LEDs after it changed businesses and lit up the Tower of the Sun for the first time in 40 years	WDN (World Dream Network) Co., Ltd.	Moriguchi City, Osaka Prefecture	217

Case	Name of enterprise, etc.	Location	Page
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A company which changed industries, shifted from subcontractor to manufacturer by developing its own products, and keeps growing	Ohashi Engineering Co., Ltd.	Ota City, Tokyo	225
A company that advanced from machinery repair to manufacturing textile machines and semiconductor fabrication equipment, seeking ongoing growth	Takatori Corporation	Kashihara City, Nara Prefecture	227
A construction company that entered the nursing care and farming fields in response to the decline in public works, and is realizing synergies	Horiuchi Gumi Co., Ltd.	Sasebo City, Nagasaki Prefecture	228
A company that trained quality personnel and manufactures high-value-added denim fabric	Nihon Menpu Co., Ltd.	Ibara City, Okayama Prefecture	236
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A company that welcomes operations improvement proposals from employees, boosts employee satisfaction, and develops human resources	Ichiran Co., Ltd.	Fukuoka City, Fukuoka Prefecture	246
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A company that uses IT to provide same-day maid services	Happy Bears Co., Ltd.	Chuo City, Tokyo	249
A company that automated so employees can manufacture high-quality products after just three months on the job	Works Co., Ltd.	Onga district of Fukuoka Prefecture	250
A company that introduced a wood boiler, conserved energy and cut expenses	Ninomiya Mokuzai K.K.	Nasushiobara City, Tochigi Prefecture	251
A company that improved works processes by applying manufacturing industry know-how to the service industry	Brilliant Associates	Tottori City, Tottori Prefecture	253

Case	Name of enterprise, etc.	Location	Page
A company that developed high value added yarns using advanced technology and gained international status	Sato Seni Co. Ltd.	Sagae City, Yamagata Prefecture	267
A company supported by Chinese, which operates a luxury wedding hall in Shanghai	Kazumi Co., Ltd.	Kanazawa City, Ishikawa Prefecture	267
A company that advanced overseas using its heat treatment processing technology	Tohken Thermo Tech Co., Ltd.	Osaka City, Osaka Prefecture	268
A company that developed its own homepage for product sales and developed overseas sales routes	Metrol Co. Ltd.	Tachikawa City, Tokyo	276
A company that uses sales agencies to provide highly refined service, even overseas	Orion Machinery Co., Ltd.	Suzaka City, Nagano Prefecture	276
A company with a portal site that sells superior SME eco products inside Japan and abroad	Ecotwaza Co., Ltd.	Kunitachi City, Tokyo	277
A company which uses the portal site “eco+waza” to sell its environmental products overseas	Sanyo Paper Co., Ltd.	Sennan City, Osaka Prefecture	277
A family inn that revived its business by attracting foreign tourists	Ryokan Sawanoya	Taito City, Tokyo	286
A company which acquired technology and know-how by working with a foreign partner, and entered a different business with successful technology transfer	Comfort-Lab Inc.	Higashiosaka City, Osaka Prefecture	294
A company that was founded for technology collaboration with a foreign enterprise and continued growing	Techno Roll Co., Ltd.	Izumi City, Osaka Prefecture	295

## Introductory notes

1. In this report, the term “small and medium enterprises” (SMEs) refers to small and medium enterprises as defined under Article 2, Paragraph 1 of the Small and Medium-sized Enterprise Basic Act, and the terms “small enterprises” and “micro enterprises” refer to “small enterprises” as defined under Article 2, Paragraph 5 of said act. More specifically, they may generally be categorized as follows.

Industry	Small and medium enterprises (meet one or more of the following conditions)		Of which small enterprises
	Capital	No. of regular employees	No. of regular employees
1) Manufacturing, construction, transport, other industries (excluding 2)-4))	Up to ¥300 million	Up to 300	Up to 20
2) Wholesale	Up to ¥100 million	Up to 100	Up to 5
3) Services	Up to ¥50 million	Up to 100	Up to 5
4) Retail	Up to ¥50 million	Up to 50	Up to 5

2. Business establishments are sometimes regarded as enterprises for the purposes of analyses in this report that make use of statistics based on the number of business establishments. In such cases, SMEs are business establishments that satisfy the above conditions regarding number of employees. In some cases, therefore, the business establishments of large enterprises may be treated as SMEs.
3. This report draws largely on statistical data published by the Japanese Government and Bank of Japan (BOJ). However, use is also made of analyses based on these data and studies conducted by various entities in the private sector. Sources, methods of calculation and other relevant information are specified where data are cited. However, the main sources cited in this report are described briefly below. (Unless otherwise noted below or in the main text, the unit of measurement used in statistical data is the enterprise.)

(1) Ministry of Economy, Trade and Industry (METI), *Census of Manufactures*

This survey provides statistics on numbers of business establishments. Surveys conducted in years ending in 0, 3, 5 and 8 are of the total number of business establishments, and surveys in other years are of business establishments and similar entities with at least four workers. Analyses based on these statistics are therefore only of business establishments with four or more workers.

In this report, the data on business establishments in each year are concatenated for analysis. It is important to remember, however, that if a business establishment has three workers one year and four the next, it is treated as a new entry in that year. (Conversely, a business establishment that goes from having four workers to three will be treated as having exited.)

(2) METI, *Census of Commerce*

This survey provides statistics on numbers of business establishments.

(3) METI, *Basic Survey of Japanese Business Structure and Activities*

As this survey only covers enterprises with 50 or more workers and capital stock of at least ¥30 million, the results do not cover small enterprises and sole proprietorships.

(4) Ministry of Finance, *Financial Statements Statistics of Corporations by Industry, Annually* and *Financial Statements Statistics of Corporations by Industry, Quarterly*

As these statistics do not include sole proprietorships, they do not reveal overall trends among small enterprises. In consideration of the sample sizes and response rates, moreover, the results concerning small corporations need to be viewed with some latitude. It must also be remembered that the quarterly version does not include corporations with capital stock of less than ¥10 million.

(5) Ministry of Internal Affairs and Communications (MIC), *Establishment and Enterprise Census of Japan* and *Economic Census: Basic Survey*

This census contains statistics on both business establishments and enterprises. In this report, analyses using these

statistics based on enterprises also include sole proprietors (sole proprietorships). However, since it is not possible to integrate multinominal trade names and establishments, the size of sole proprietorships is determined based on the number of workers at its head office or principal place of business. For example, a manufacturing sole proprietorship with 100 workers at its head office and 300 workers at branch offices would therefore be treated as an SME.

The *Economic Census: Basic Survey* is similar to the *Establishment and Enterprise Census of Japan*. It differs from it, however, in that it (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administration records, and (2) its adoption of a method of surveying enterprises and establishments en bloc by having head offices report information on their branches and other operations. It must consequently be borne in mind that variations from the results of the *Establishment and Enterprise Census of Japan* do not all indicate increases or decreases.

It should be noted that the data from the *Economic Census: Basic Survey* are provisional data based on preliminary basis aggregates. The results of analyses based on this data may therefore differ from those using the subsequently confirmed detailed aggregates.

- 4 This report includes analyses of the results of questionnaire surveys of SMEs and other respondents conducted by the Small and Medium Enterprise Agency (SME Agency). However, as not all enterprises surveyed responded and the response rate appears to be higher the healthier a company is, the results probably paint a better picture than the reality. In addition, totals cited based on the results of these surveys do not always sum to 100% due to rounding to the first decimal place.
- 5 There are two problems with trying to determine the general situation in the SME sector using only mean values from statistical data on SMEs. These are as follows:
  - (1) Unlike large enterprises, SMEs exhibit considerable variation. Mean values are not therefore always representative of the typical SME.
  - (2) Statistical data on SMEs may not be distributed symmetrically around the mean, but instead skewed rightwards. In this report, therefore, median, top 25th percentile (first quartile) and bottom 25th percentile (third quartile) as well as mean values are used where necessary to provide a better picture of the typical SME.
- 6 The universities and institutes of the researchers whose findings (both on Japan and overseas) are cited in this report are those to which the researchers belonged when the results were published.
- 7 The word “significant” is used in this report to denote a figure considered to be sufficiently meaningful using statistical techniques. The smaller the percentage, the greater the degree of certainty.



# Part I

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## Recent trends among SMEs

Although business conditions had been reviving in fiscal 2010, the unprecedented devastation and ensuing nuclear crisis caused by the Tohoku - Pacific Ocean Earthquake and tsunami on March 11, 2011, known officially in Japan as the Great East Japan Earthquake, had a far-reaching effect on not only residents and enterprises in the affected regions, but the entire Japanese economy.

In Chapter 1, we show that the Japanese economy, having been in recovery until the earthquake, is now in a weakened state due to the effects of the disaster, and that a variety of risks cloud its outlook. In addition to the effects of the earthquake, these include the strength of the yen and escalating crude oil and food prices.

In Chapter 2, we examine in greater detail the effects of the earthquake on Japan's SMEs.



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# Chapter 1

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## Trends among SMEs in fiscal 2010

From the spring of 2009 through to the first half of 2010, the Japanese economy had been recovering from the contraction that had followed the collapse of leading investment bank Lehman Brothers in September 2008 (referred to below as the “Lehman crisis”). From the summer of 2010, however, the economic outlook grew more clouded and growth sagged. Entering 2011, growth began to pick up again until the effects of the Great East Japan Earthquake caused growth to weaken.

In Section 1, we summarize economic trends in Japan in fiscal 2010 and show that, having recovered from the Lehman crisis and then come to a standstill, the economy showed signs of rallying until the Great East Japan Earthquake caused growth to weaken.

In Section 2, we provide an overview of trends among SMEs. This shows that, despite some variation according to size of enterprise and industry, business conditions among small and medium enterprises (SMEs) were largely improving until the March 11 earthquake completely reversed the trend. We also demonstrate that in addition to the effects of the earthquake, a number of factors pose future risks, including exchange rate fluctuations and soaring crude oil and food prices.

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### Section 1 Economic trends in Japan

In this section, we survey the weakening of business conditions in Japan due to the impact of the earthquake

following the revival from the economic downturn in the wake of the Lehman crisis.

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#### ● Business confidence in Japan

From the summer of 2007, the subprime mortgage crisis and other problems in the United States caused turbulence on the financial markets that led, in September 2008, to the collapse of leading investment bank Lehman Brothers. This triggered a sharp deterioration of the world economy. According to provisional reference dates for the business cycle released by the Cabinet Office on June 7, 2010, the Japanese economy peaked in October 2007 before entering a downturn that hit bottom in March 2009, after which it entered a period of expansion. The expansion phase from spring 2009 was driven by net exports and the effects of government policies adopted to stimulate the economy, and was given a further boost in the summer of 2010 by the effects of the heat wave. However, the weakness of exports became apparent, and the impact of the yen’s rapid rise hit business sentiment, generating concern over

the future outlook. In the autumn, the recoil in demand after the heat wave and the termination of the program to promote purchases of eco-friendly cars (“Eco-Car Subsidy Program”) caused business conditions to weaken. From the beginning of 2011, a combination of factors, including an upturn in exports and production in response to the recovery of the world economy and the bottoming out of car sales, which had dropped as policy effects had ceased, toward the end of 2010, saw the Japanese economy get moving again. It was just as the economy had entered this expansion phase that the March 11 earthquake struck. As well as causing direct damage, such as the destruction of buildings and facilities, this impeded supplies of raw materials and deliveries of products, and consumer sentiment was dragged down by the mood of restraint. The impact on the Japanese economy was consequently felt across a wide range of fields.

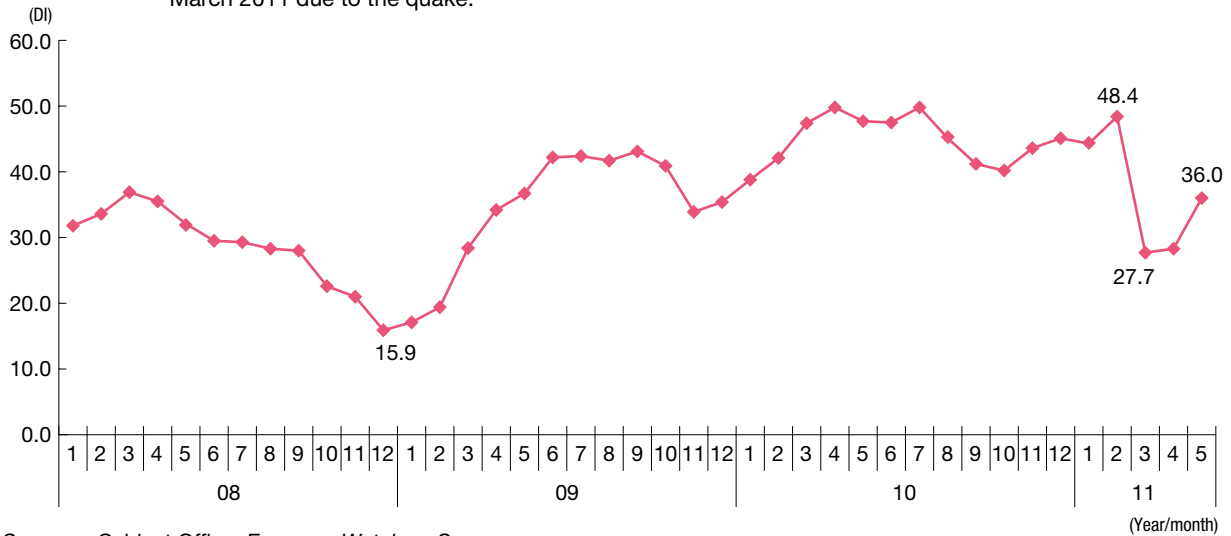
Below, therefore, we examine these developments in further detail using the results of the *Economy Watchers Survey*.

The current conditions diffusion index (DI), which had been improving, became depressed from the summer to the autumn of 2010. It then rallied before falling sharply in March 2011 due to the impact of the earthquake.

But while conditions remain severe because of the earthquake's impact, the DI began to look up again in May owing mainly to the effects of reconstruction demand and increased production by alternate producers to make up for the lost output of enterprises affected by the disaster (Figure 1-1-1).

**Fig. 1-1-1 Current conditions DI for all Japan**

The current conditions DI improved after marking time following the Lehman crisis, but fell sharply in March 2011 due to the quake.



Source: Cabinet Office, *Economy Watchers Survey*.

- Notes:
1. The *Economy Watchers Survey* is an interview survey of taxi drivers, storekeepers, and others directly involved in economic activity in 11 regions nationwide to determine the state of business confidence at the local level. The results are expressed as a diffusion index.
  2. The survey is conducted at the end of each month.
  3. The current conditions DI is calculated by scoring respondents' assessment of business conditions on a five-step scale as shown below, and multiplying these scores by each respondent category's percentage share of the total: +1 for "better," +0.75 for "slightly better," +0.5 for "unchanged," +0.25 for "slightly worse," 0 for "worse".

● **Exports and households drive economic recovery until earthquake**

Until conditions weakened following the earthquake, the Japanese economy had been exhibiting signs of recovery.

Following a sharp downturn in the first quarter of 2009, the real GDP growth rate began to grow in the second quarter. While growth was again briefly negative in the following quarter, positive quarter-on-quarter growth thereafter continued until the third quarter of 2010. A factor analysis of the growth factors behind the real GDP

growth rate reveals that the post-Lehman recovery was primarily driven by exports and household (consumption plus housing). In the third quarter of 2010 in particular, the spike in demand ahead of the termination of the Eco-Car Subsidy Program and cigarette price hike resulted in seasonally-adjusted quarter-on-quarter growth of 0.9%. This was followed by negative growth in the fourth quarter as demand recoiled from the previous quarter. In the first quarter of 2011, the earthquake caused the growth rate to fall further (Fig. 1-1-2).

**Fig. 1-1-2 Factor analysis of recent trends in real GDP growth rate (contributions to quarter-on-quarter rate)**

Exports and households (consumption plus housing) drove the post-Lehman recovery, but the GDP growth rate fell in the first quarter of 2011 when the quake struck.



Source: Cabinet Office, *Annual Report on National Accounts*.

- Notes: 1. Real GDP estimates in chained CY2000 yen.
- 2. Due to rounding, the contributions of each component do not necessarily sum to the real GDP growth rate.

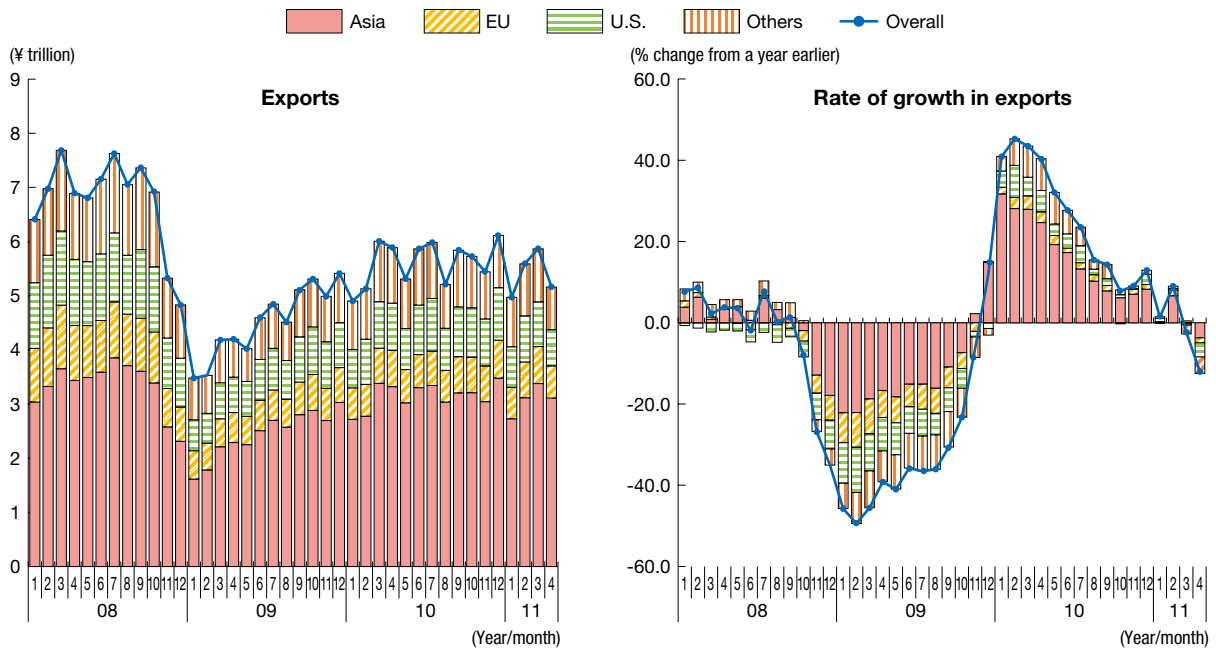
**Export trends**

We turn next to consider trends in exports, which drove the economic recovery following the Lehman crisis. According to the Ministry of Finance’s (MOF) *Trade Statistics of Japan*, Japanese exports bottomed out year on year in February 2009 before recovering propelled principally by exports to Asia. In the summer

of 2010, exports weakened as the rate of growth from the same month a year earlier continued to shrink. Although exports again exhibited a recovery at the end of the year, the value of trade in March 2011 registered its biggest year-on-year decline in 16 months owing to the effects of the earthquake (Fig. 1-1-3).

**Fig. 1-1-3 Japanese exports**

Exports grew year on year propelled mainly by Asian demand, but went into decline in March 2011 due to the quake.



Source: Ministry of Finance (MOF), *Trade Statistics of Japan*.

● Exchange rate

While the recovery from the economic downturn following the Lehman crisis was driven to a large extent by exports as well as households, exchange rates exerted an impact on trends in exports.

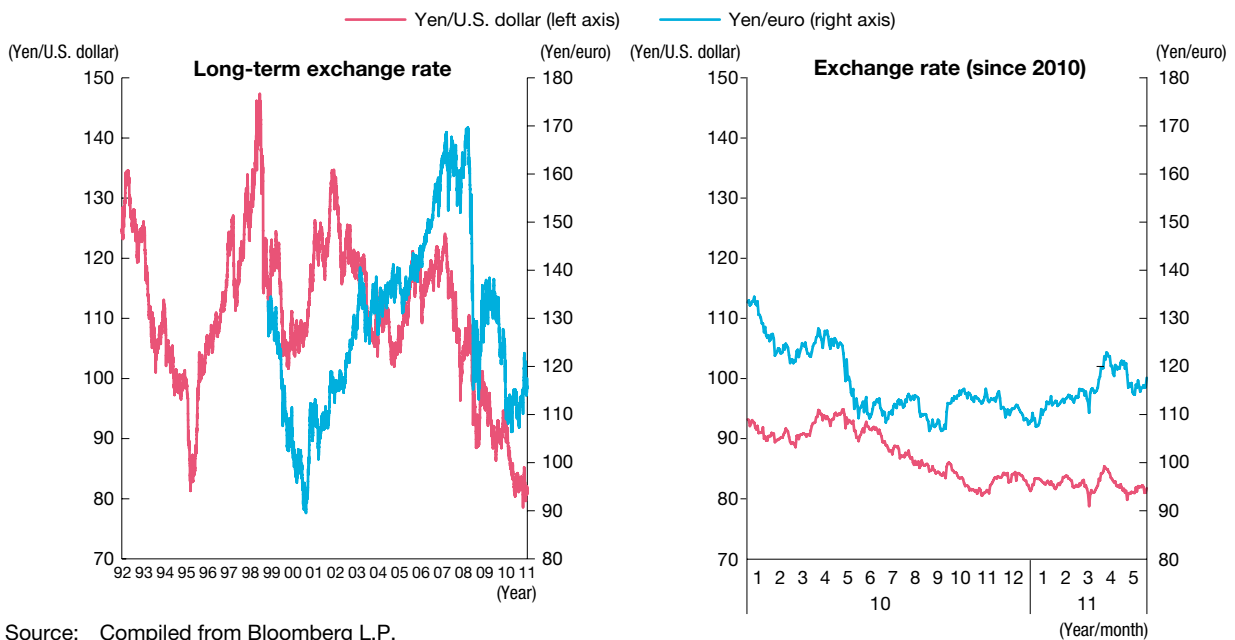
The yen strengthened rapidly in fiscal 2010. The exchange rate, which had stood at around ¥93 to the U.S. dollar in early April 2010, dipped below ¥85 in late August 2010. Notwithstanding some fluctuation, the yen's appreciation continued, and on November 1, 2010, hit a momentary rate of ¥80.21. This was a record for the yen since the momentary rate of ¥79.75 hit on April 19, 1995, which was the highest the yen had been since Japan moved in practice to a floating exchange rate in 1973. Since then, the yen has hovered around ¥83 to the U.S. dollar. Following the earthquake, the yen then set an all-time momentary high of ¥76.25 on March 17.

The strong yen period in 1995 occurred against the

backdrop of declining confidence in the U.S. dollar following the Mexican currency crisis at the end of 1994 at a time of ongoing underlying strength for the yen due to Japan's growing current account surplus after the bursting of the economic bubble and the contraction of the U.S. economy. In comparison, the strong yen this time has been propelled by the preference for it as a "haven currency" due to heightened risk aversion on the international financial markets amid the global economic downturn following the Lehman crisis, and this trend has been reinforced by loss of confidence in the euro due to the European debt crisis. It appears that the yen then hit a postwar high as a result of this risk averse stance becoming even more pronounced due to a combination of anticipated growth in realizations by investors at home and abroad converting U.S. assets to yen following the earthquake, and the absence of any sign of abatement of the turmoil in the Middle East (Fig. 1-1-4).

**Fig. 1-1-4 Exchange rate**

The yen climbed to its highest against the U.S. dollar since 1995.



Source: Compiled from Bloomberg L.P.  
 Note: Daily figures are used for exchange rates.

Given the preference for the yen as a haven currency, how have fluctuations in the exchange rate affected the competitiveness of Japanese exports? A strong yen affects business sentiment, and in the short term at least has a negative impact on the economy. Here, therefore, we compare the strong yen periods in 1995 and now using the real effective exchange rate as an indicator of the impact

of the exchange rate on export competitiveness. Looking at the real effective exchange rate,<sup>1)</sup> we find that the yen briefly exceeded 150 during the strong yen period in 1995. This time, however, it stands much lower at around 105. Although the nominal exchange rates for the two periods, shown in Fig. 1-1-4, were almost the same, the impact on export competitiveness appears to have been

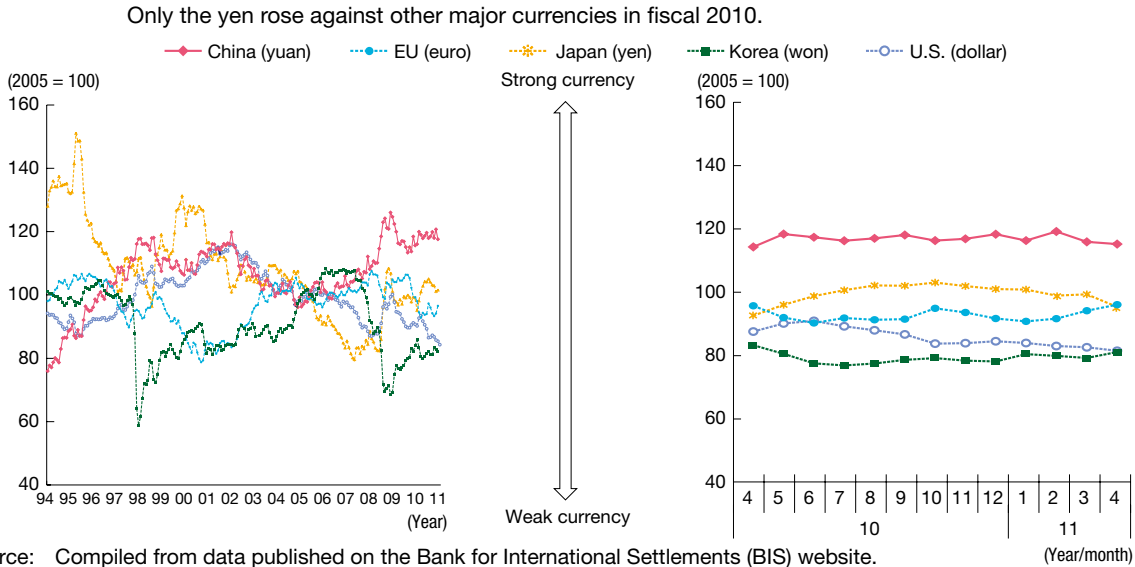
1) The real effective exchange rate is an aggregate index used to measure currencies' relative actual strengths, which cannot be ascertained solely by looking at the rate of exchange between two specific currencies. More specifically, bilateral exchange rates between the Japanese yen and other major currencies are aggregated and calculated by weighting each according to its relative importance as determined by the value of trade and other factors.

relatively slight compared with in 1995. This is because of the deepening deflation experienced by Japan following the bursting of the economic bubble.

Now let us focus on the period since fiscal 2010. Although the yuan has strengthened, the rise has not been sharp as China, facing pressure to revalue its currency due to its rapid economic development, has pursued gradual

renminbi reform. The euro and won briefly weakened in the second quarter of 2010, while the U.S. dollar has continued to weaken since June 2010. Alone among the major currencies, the yen has risen rapidly since April 2010, and this has had a certain impact on the export competitiveness of Japanese enterprises (Fig. 1-1-5).

**Fig. 1-1-5 Real effective exchange rate**



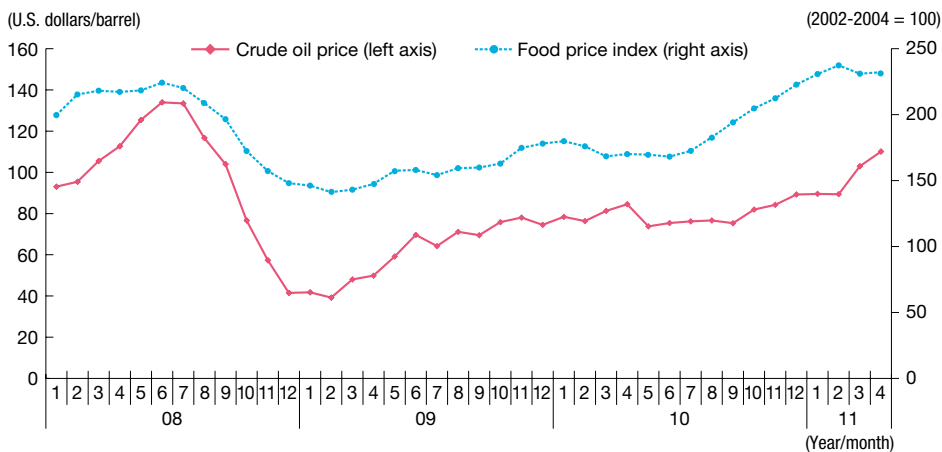
● **Crude oil price and food price index**

In fiscal 2010, both the crude oil price and the food price index rose. The WTI crude oil price, which is used as an indicator of world crude oil prices, is presently at its highest level since the highs of 2008. The January 2011 food price index calculated by the Food and Agriculture Organization of the United Nations (FAO) was also the

highest since it was first published in 1995, and climbed to a new high in February (Fig. 1-1-6). The continuing high level of crude oil and food prices presents not only a downside economic risk, but may also potentially affect rapid rebuilding from the earthquake, and deserves continued close attention.

**Fig. 1-1-6 Crude oil price and food price index**

Both the crude oil price and food price index have trended upward since fiscal 2010 and remain high.



### ● Effects of economic stimulus measures

As well as exports, the recovery from the post-Lehman downturn was driven by personal consumption underpinned by various economic stimulus measures. The measures adopted to stimulate consumption during this period consisted of several programs designed to directly stimulate consumption of durable goods. These included the Eco-Car Subsidy Program, an “eco points” program to promote purchases of environmentally friendly domestic appliances (referred to below as the “Domestic Appliance Eco Point Program”), and a program to promote environmentally friendly home construction and renovation work, also using eco points (referred to below as the “Home Eco Point Program”). Below, we examine how each of these programs helped drive economic recovery.

### ● Contributions to GDP growth rate

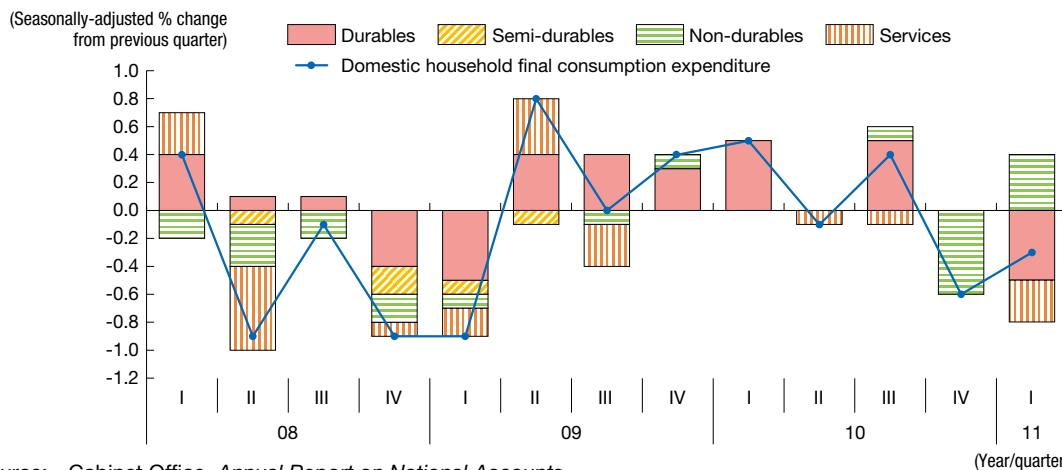
Fig. 1-1-2 showed several factors’ contributions to the

real GDP growth rate. Real GDP is divided up into several components: households (consumption plus housing), private inventory growth, private enterprise investment, public demand, exports, and imports. Of these, households (consumption) less direct purchases abroad by residents of Japan plus direct purchases in Japan by non-residents of Japan constitutes what is called domestic household final consumption expenditure.

Breaking this down into each of its component items of expenditure reveals considerable growth in spending on durables, which include goods eligible for eco-car subsidies and domestic appliance eco points from the second quarter of 2009. As the Eco-Car Subsidy Program was wound up in September 2010, however, expenditure began to shrink in the fourth quarter of that year, and the decline was further accelerated in the first quarter of 2011 by a worsening of consumer sentiment due to the effects of the earthquake (Fig. 1-1-7).

**Fig. 1-1-7 Domestic household final consumption expenditure**

Private consumption grew strongly in the third quarter of 2010 fueled especially by spending on durables, but began to shrink in the fourth quarter and the decline accelerated in the first quarter of 2011 due to the quake.



Source: Cabinet Office, *Annual Report on National Accounts*.

Notes: 1. Contributions to real GDP growth rate (seasonally-adjusted change from previous quarter).

2. Due to rounding, the contributions of each component do not necessarily sum to domestic household final consumption expenditure’s contribution to the real GDP growth rate.

### ● Eco-Car Subsidy Program

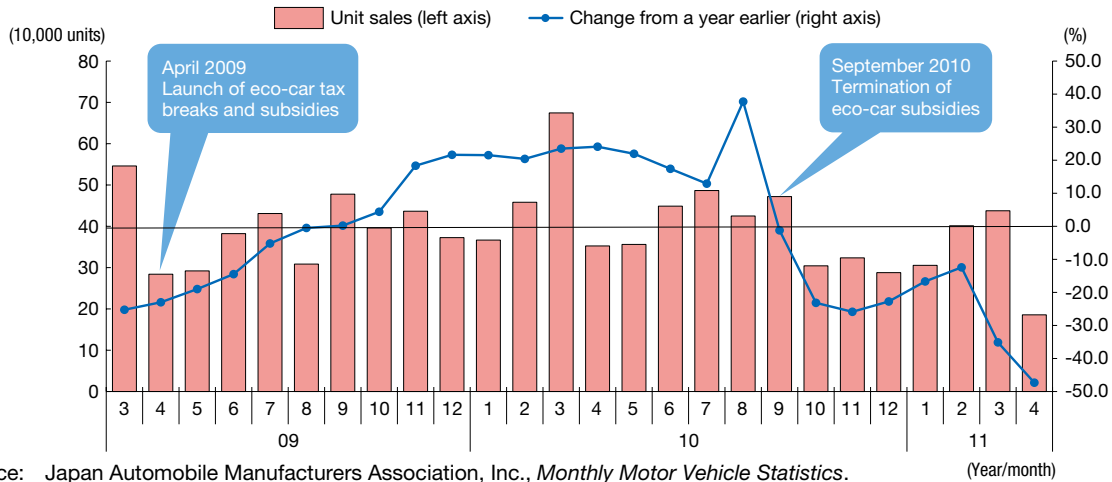
The Eco-Car Subsidy Program subsidized purchases of passenger cars meeting certain environmental standards by up to ¥250,000. Subsidies were initially provided for cars that were newly registered on or after April 10, 2009. After being extended in December 2009 to help stimulate the economy, the program was closed to applications on September 7, 2010. Unit sales of new vehicles exhibited a recovery from April 2009, when eco-car subsidies began to be paid out, and started to grow year on year in

September 2009. Just before the program was terminated in August 2010, there was a strong upward movement in sales compared with a year earlier. In September, however, sales dipped.<sup>2)</sup> The recoil following the spike in demand bottomed out in the second half of 2010, and the year-on-year rate of decline shrank. From March 2011, however, the impact on supply of stagnating production activity due to the earthquake led to a large year-on-year decline (Fig. 1-1-8).

2) Alongside the Eco-Car Subsidy Program, tax breaks were introduced for vehicles offering excellent environmental performance. These consisted of reductions in the automobile weight tax and the automobile acquisition tax, respectively effective until April 30, 2012, and March 31, 2012. These tax breaks are expected to continue to sustain demand.

**Fig. 1-1-8 New vehicle sales**

New vehicle sales improved from the launch of the Eco-Car Subsidy Program until the month prior to its closure to applications in September 2010. In the later half of 2010, sales began to pick up from the post-spike slump, but were severely depressed from March 2011 by the quake.



Source: Japan Automobile Manufacturers Association, Inc., *Monthly Motor Vehicle Statistics*.

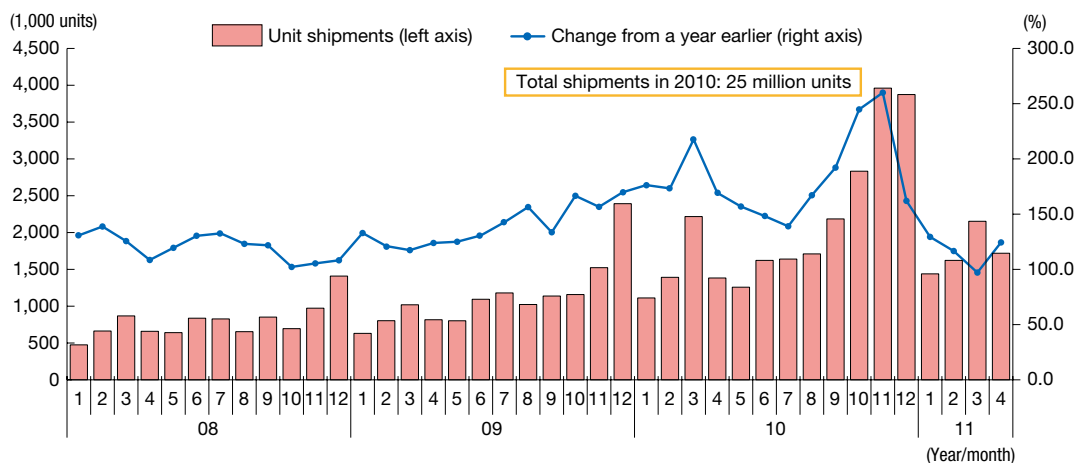
● **Domestic Appliance Eco Point Program**

The Domestic Appliance Eco Point Program awarded eco points that could be exchanged for a variety of goods and services by purchasers of digital terrestrial TV sets, air conditioners, and refrigerators that had received at least a four-star rating under the comprehensive energy efficiency labeling scheme,<sup>3</sup> and was launched in May 2009. It was twice extended as part of economic stimulus measures in December 2009 and September 2010. From January 1, 2011, it was limited to purchasers of products

with a five-star rating under the above scheme who had their old items recycled, and the program was concluded in March. If we look at shipments of flat-screen TV sets, which were one of the categories of products eligible for domestic appliance eco points, we find that, due also in part to replacement demand ahead of the switch to digital terrestrial broadcasting in July 2011, unit shipments in 2010 rose 85% on the previous year to around 25 million units (Fig. 1-1-9).

**Fig. 1-1-9 Shipments of flat-screen TV sets**

Boosted by replacement demand ahead of the digital switchover in July 2011, shipments rose 85% from the previous year to some 25 million units in 2010.



Source: Japan Electronics and Information Technology Industries Association, *Domestic Sales of Digital Terrestrial Broadcast Television*.

Note: "Unit shipments" here means actual domestic shipments.

3) Comprehensive energy efficiency labels display information on a combination of factors, including: (1) evaluation on a multi-point scale, (2) energy efficiency, and (3) the suggested annual electricity cost of using the device. The first of these is determined according to the distribution of rates of attainment of energy efficiency standards by products on the market. Energy efficiency is displayed on a five-star scale, with five stars being highest.

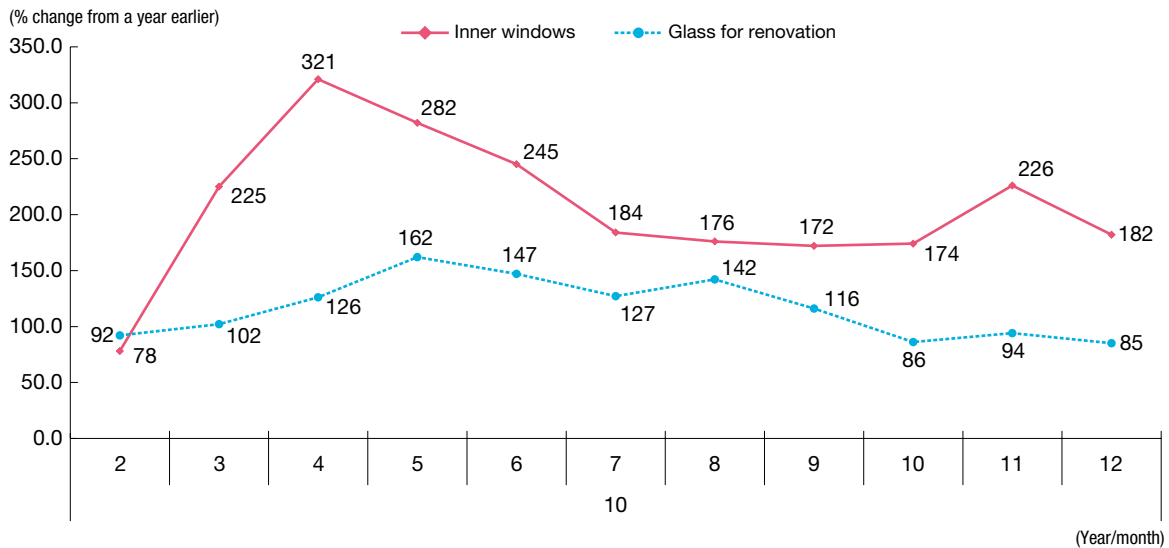
● **Home Eco Point Program**

The Home Eco Point Program awarded points exchangeable for various goods and services for new and ecologically modified homes meeting high standards of environmental friendliness. Applications began to be accepted in March 2010. The program was extended to help stimulate the economy in September and October 2010, and the range of items for which points could be earned was expanded to include home appliances (solar heating systems, water-saving toilets, and highly insulated bathtubs) installed when giving homes

ecological makeovers. The aim of this was to prompt increased investment in the housing sector and its wide range of supporting industries, providing a boost to the economy and also increasing the stock of highly energy-efficient homes. Shipments of inner windows and glass for renovation work, which qualify for points for eco home renovation, exhibited an upward trend in year-on-year terms from March 2010, indicating that the program was of some benefit to housing-related industries (Fig. 1-1-10).

**Fig. 1-1-10 Shipments of inner windows and glass for renovation**

Shipments of inner windows and glass for renovation qualifying for home eco points exhibited an upward trend in year-on-year terms.



Source: Ministry of Economy, Trade and Industry (METI), *Shipments of Inner Windows and Glass for Renovation from the Launch of the Home Eco Point Program*.

- Notes:
1. Volumes of shipments were estimated by METI based on interviews with manufacturers.
  2. Inner windows are counted in panes and glass for renovation in square meters.
  3. The aggregated values may vary due to re-aggregation, etc.
  4. % change from a year earlier = (this year - last year) / last year × 100.
  5. Statistics are available only up to December 2010.

● **Decline in construction work**

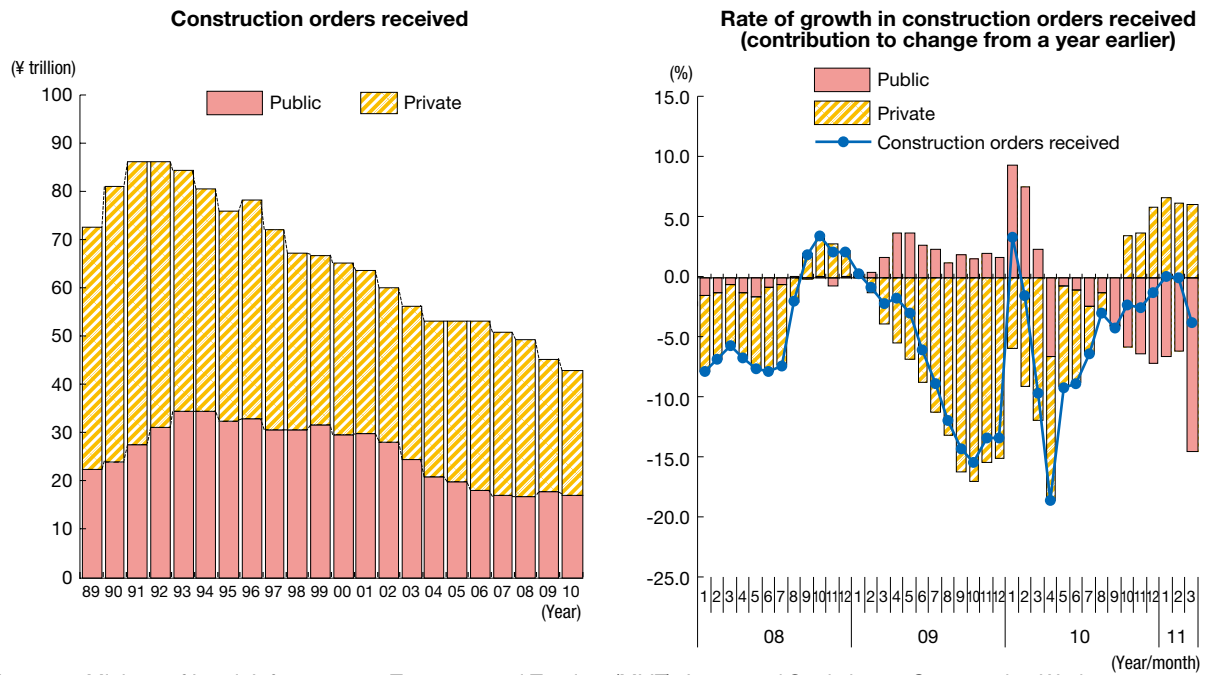
Year-on-year growth in public works from the start of 2009 due to economic stimulus measures was outweighed by a decline in private construction work orders, which far exceeds the value of public works, causing construction orders received to fall considerably overall. In the second half of 2010, there was an upturn in private works

compared with the same period a year earlier. From April 2010, however, public works went into decline and the year-on-year downward trend continued. Due to the severe damage to buildings, facilities, and infrastructure caused by the earthquake, however, future support for reconstruction may create increased opportunities to receive construction orders (Fig. 1-1-11).



**Fig. 1-1-11 Construction orders received**

Construction orders received are trending downward. Although private works began to rise from the second half of 2010, public works have taken a downturn and the year-on-year downward trend continues.



Source: Ministry of Land, Infrastructure, Transport and Tourism (MLIT), *Integrated Statistics on Construction Work*.  
 Note: Orders received are calculated on a completed basis.

In this survey of Japanese economic trends in this section, we have examined the export- and household-led recovery up until the earthquake, the effects of economic stimulus measures adopted in fiscal 2010, the underlying downward trend in construction work due principally to

the decline of public works, and the weakening tone of the Japanese economy following the earthquake. With this as a backdrop, we proceed in Section 2 to examine business confidence, production, financial position, and employment among SMEs in Japan.

## Section 2 Trends among SMEs

In the preceding section, it was observed that the Japanese economy picked up thanks to the recovery overseas from the economic downturn following the Lehman crisis and the effects of various economic stimulus measures. From around the summer of 2010, however, the emergent fragility of exports and termination of stimulus measures led the economy to mark time. Although the economy did

get moving again (despite uncertainty over the exchange rate and other concerns) the Great East Japan Earthquake impacted on the entire Japanese economy. In this section, we look at trends among SMEs under these circumstances, focusing in particular on business confidence, production, financial position, and employment in this sector.

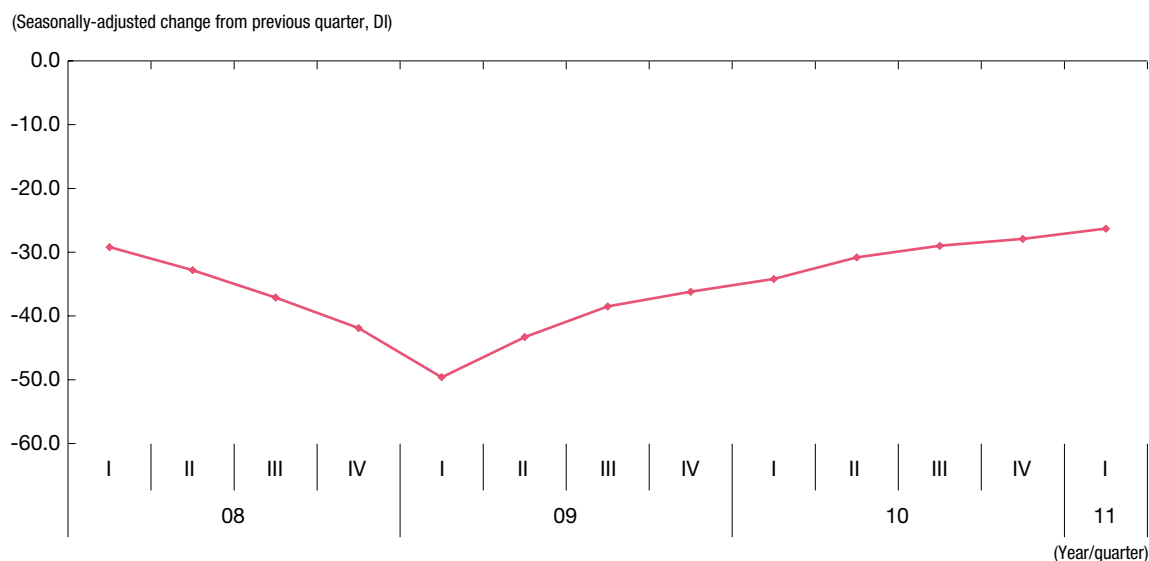
### ● Business confidence

We begin by examining business confidence before the earthquake using the results of the *Survey on SME Business Conditions* produced by the Small and Medium Enterprise Agency (SME Agency) and the Organization for Small

& Medium Enterprises and Regional Innovation, Japan (SMRJ). The business conditions DI for SMEs became less negative from the first quarter of 2009, from which time it showed signs of rallying (Fig. 1-1-12).

**Fig. 1-1-12 Business conditions DI for SMEs**

The business conditions DI for SMEs showed signs of improvement after bottoming out in the first quarter of 2009 and becoming less negative.



Source: Small and Medium Enterprise Agency (SME Agency) and Organization for Small & Medium Enterprises and Regional Innovation (SMRJ), *Survey on SME Business Conditions*.

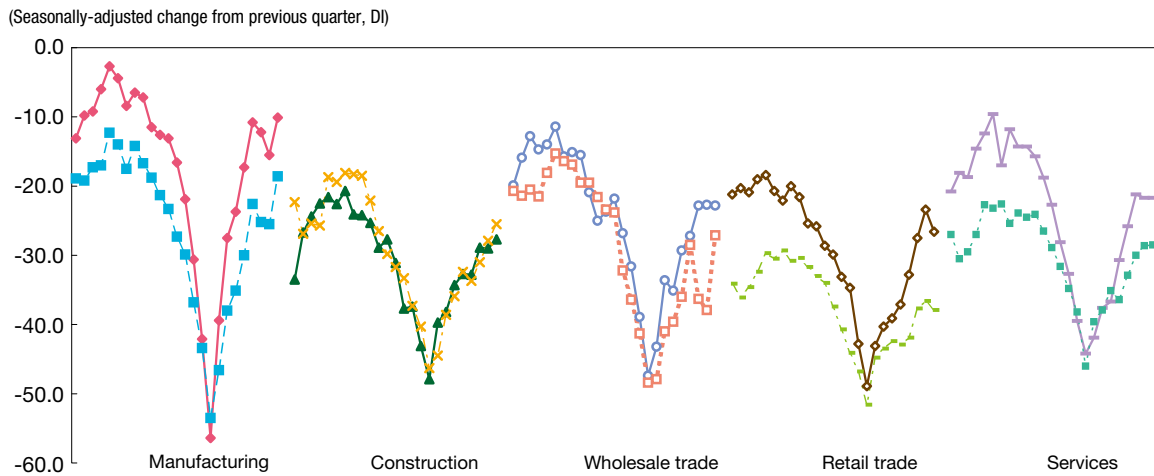
- Notes:
1. This is a quarterly survey consisting of interviews with some 19,000 companies nationwide carried out by business advisors from associations and chambers of commerce and industry across the country and researchers from the National Association of SMEs.
  2. The business conditions DI is calculated by subtracting the percentage of enterprises that answered “worsened” from the percentage of enterprises that answered “improved” when questioned about their business conditions in comparison with the previous quarter.
  3. It should be noted that the survey for the first quarter of 2011 was conducted on March 1, and so took place before the Great East Japan Earthquake.

Next, we consider business conditions DIs by industry. The upturn recovery from the Lehman crisis was apparent in almost all industries until the second quarter of 2010. From the third quarter, however, conditions began to weaken in manufacturing especially. In the first quarter of 2011, while there appeared signs of recovery in

manufacturing, the DI became more negative in the retail trade and services. Business confidence also appeared to vary according to size as well as industry, with the business conditions DI being lower for small enterprises than for medium enterprises (Fig. 1-1-13).

**Fig. 1-1-13 Business conditions DI by industry and size**

Before the earthquake, business confidence among SMEs varied accord to both size and industry, with small enterprises recording a lower DI than larger enterprises.



Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

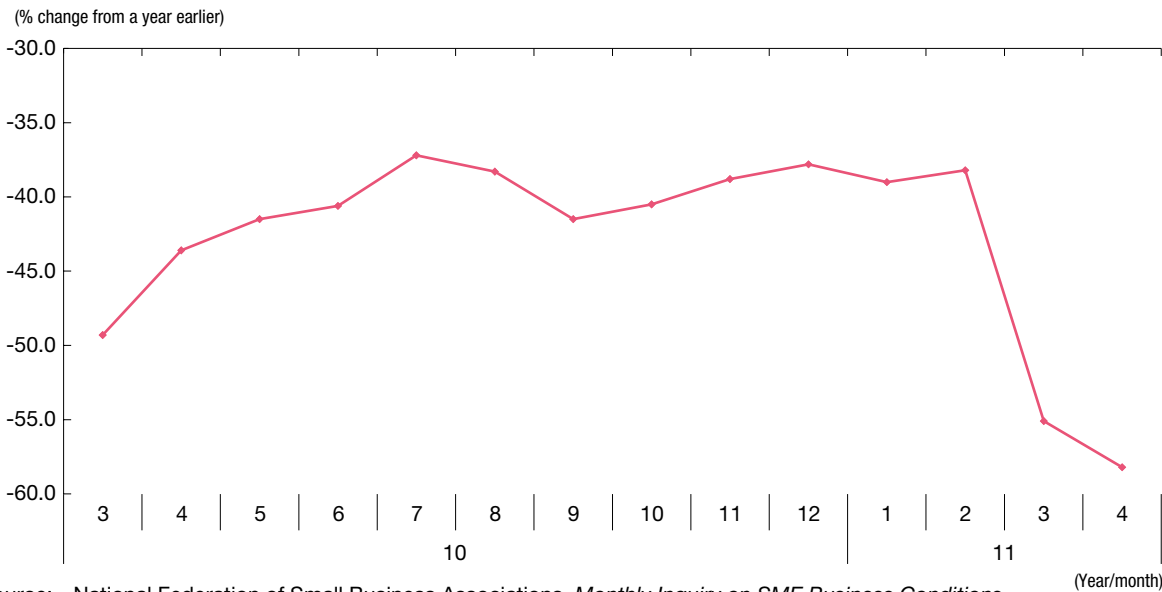
- Notes:
1. Thick lines represent medium-sized enterprises and thin lines represent small-sized enterprises.
  2. The period covered is from 1Q 2005 to 1Q 2011.
  3. It should be noted that the survey for 1Q 2011 was conducted on March 1, and so took place before the Great East Japan Earthquake.

Next, we look at business confidence before and after the earthquake using the results of the *Monthly Inquiry on SME Business Conditions* produced by the National Federation of Small Business Associations (“Chuokai”). The business confidence DI for SMEs appeared to pick

up from the beginning of fiscal 2010, but then sank in the third quarter of 2010. Although it later rallied, it worsened considerably in March 2011 when the earthquake struck (Fig. 1-1-14).

**Fig. 1-1-14 Business confidence DI for SMEs**

The business conditions DI for SMEs worsened sharply in March 2011 when the earthquake struck.



Source: National Federation of Small Business Associations, *Monthly Inquiry on SME Business Conditions*.

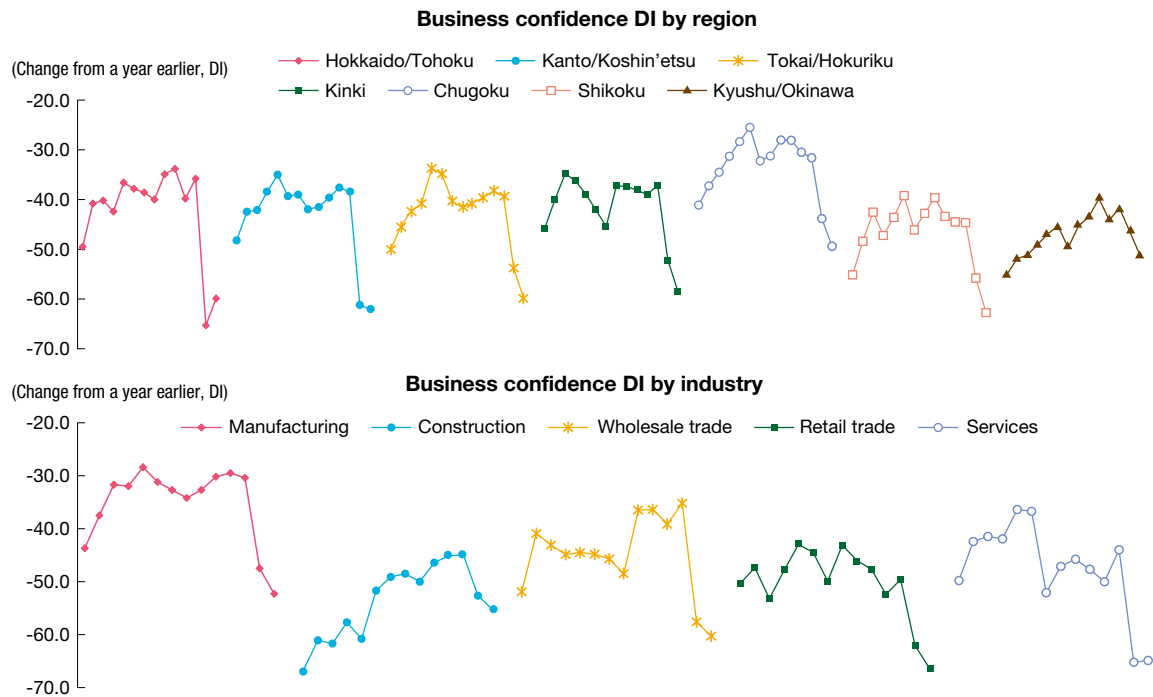
- Notes:
1. This survey is conducted by information liaison officers appointed at prefectural federations of small business associations (through delegation to approximately 2,700 directors and staff at associations (cooperatives and commercial and industrial associations) of SMEs).
  2. The business confidence DI is calculated by subtracting the percentage of enterprises that answered “worsened” from the percentage of enterprises that answered “improved” when questioned about their business conditions in comparison with the same month of the previous year.

A breakdown by region reveals that, while there were large declines in the Tohoku and Kanto regions that suffered serious direct damage from the earthquake, there were declines across the board. The impact that the earthquake had on the whole of Japan, as well as just the east of the country, is thus clearly apparent. A breakdown by industry

shows that the business confidence DI exhibited varying degrees of recovery up until the earthquake occurred. In March 2011, however, the earthquake severely affected all industries and, despite variations in the extent of the slump, worsened considerably in all industries (Fig. 1-1-15).

**Fig. 1-1-15 Business confidence DI by region and industry**

The DI generally worsened in all regions and industries due to the earthquake. In March 2011, the deterioration was particularly severe in eastern Japan.



Source: National Federation of Small Business Associations, *Monthly Inquiry on SME Business Conditions*.  
 Note: The period covered is from March 2010 to April 2011.

● **Revenues**

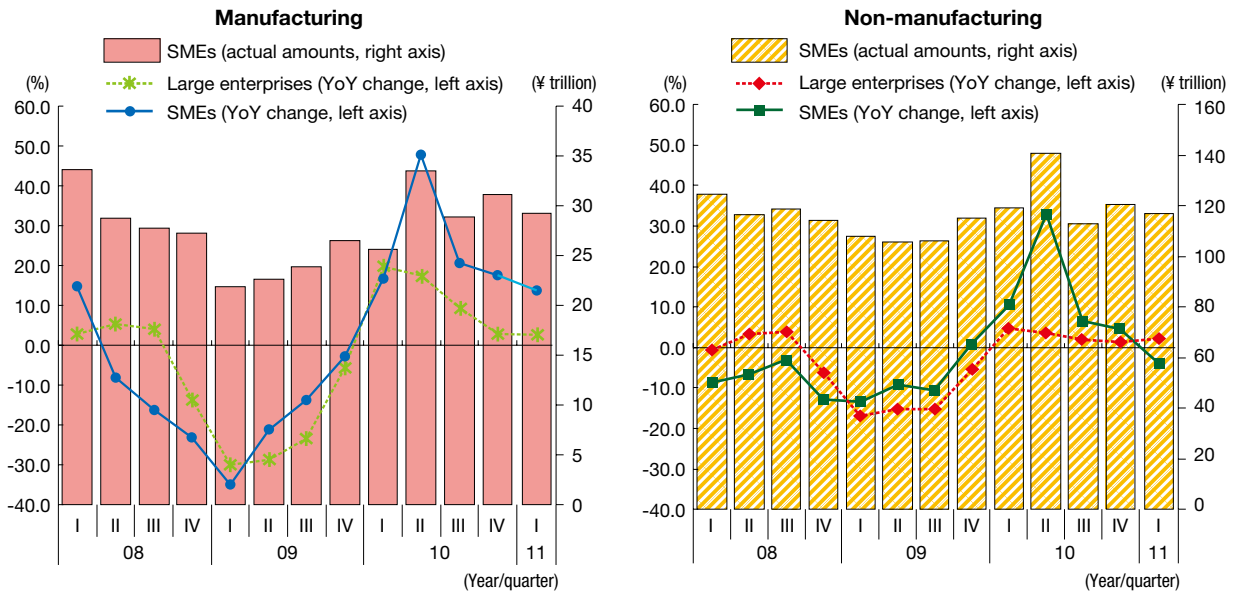
The next question we consider is the state of SME revenues.

SMEs sales began to increase year on year in the first quarter of 2010 in manufacturing, and the fourth quarter

of 2009 in non-manufacturing. From the third quarter of 2010, however, year-on-year rates of growth in sales began to decline, and there are concerns over the possible future impact of the earthquake (Fig. 1-1-16).

**Fig. 1-1-16 Sales by size and industry**

Year-on-year growth in SME sales slowed from the third quarter of 2010, and there are concerns over the future effects of the earthquake.



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.

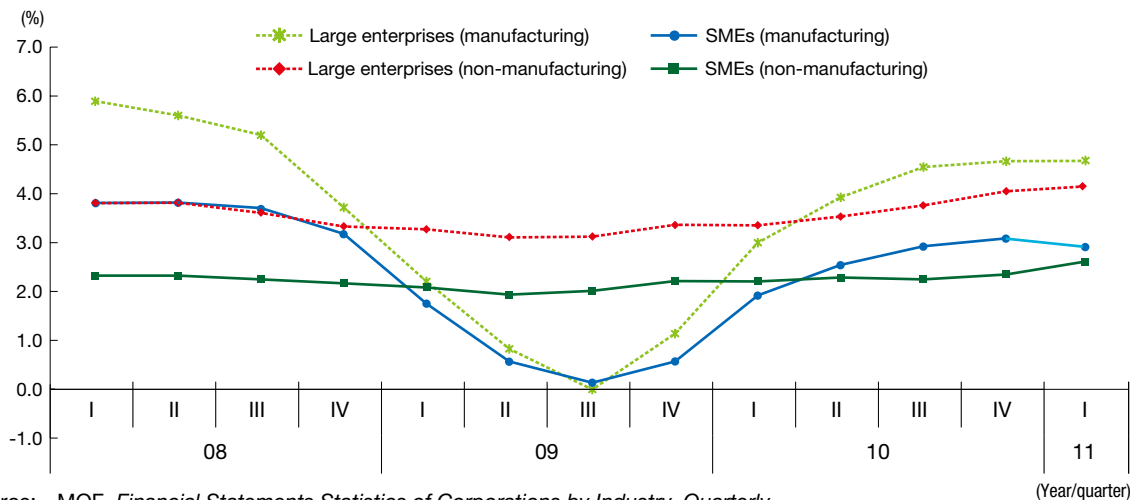
- Notes: 1. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.  
 2. The figures for the first quarter of 2011 are preliminary figures, and exclude enterprises that could not respond due to the effects of the earthquake.

Looking next at the ratio of ordinary profit to sales, we find that they have continued to increase in manufacturing from around 0% in the third quarter of 2009. In non-manufacturing, the trend has been upward despite the milder slump in comparison with manufacturing. Relative

to large enterprises, however, SMEs in both manufacturing and non-manufacturing have exhibited lower ratio of ordinary profit to sales, and the future impact of the earthquake presents a concern (Fig. 1-1-17).

**Fig. 1-1-17 Ratio of ordinary profit to sales by size and industry**

Ratio of ordinary profit to sales was recovering modestly, but there are concerns about the future effects of the earthquake.



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.

- Notes: 1. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.  
 2. Moving average of the past four quarters.  
 3. The figures for the first quarter of 2011 are preliminary figures, and exclude enterprises that could not respond due to the effects of the earthquake.

### ● Production

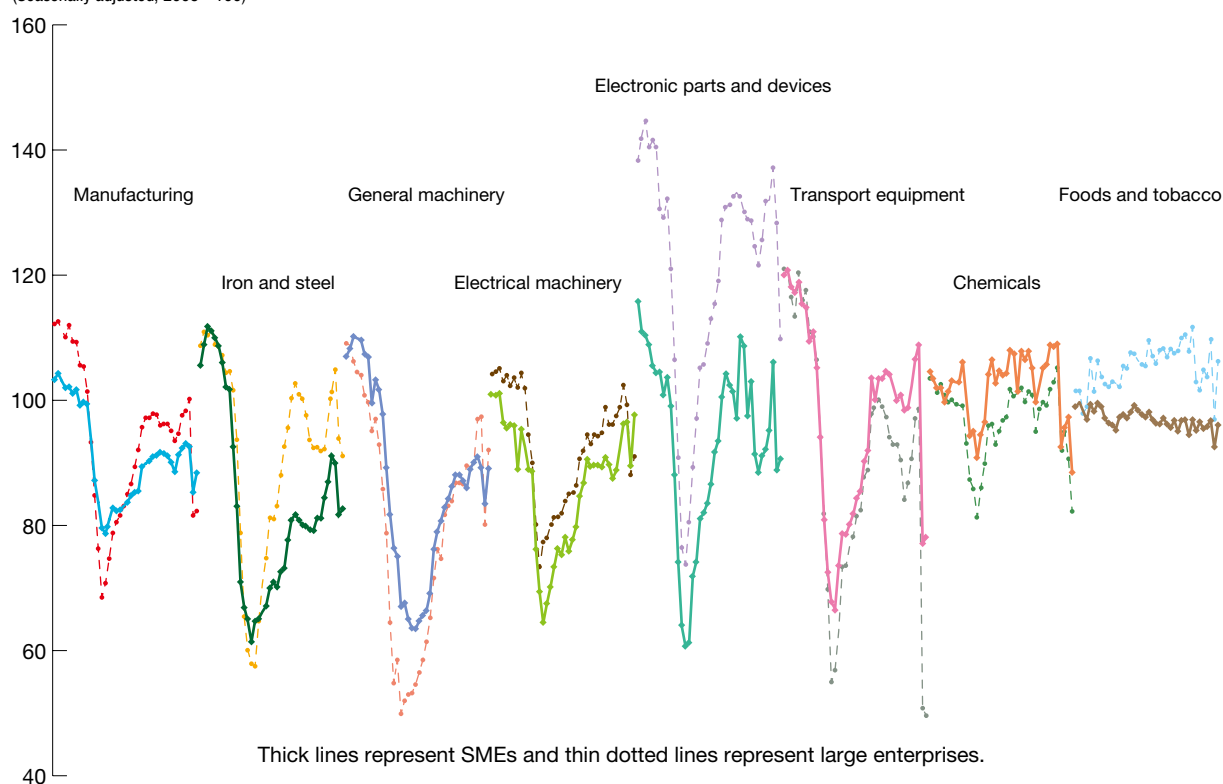
Below, we examine production at SMEs. The manufacturing production index<sup>4)</sup> for SMEs fell sharply following the Lehman crisis before recovering mainly in response to the upward trend in exports due to the improvement of the economic situation overseas and the effects of policies such as the Eco-Car Subsidy Program and the Domestic Appliance Eco Points Program described in Section 1. After weakening in mid-2010, there appeared

signs of a recovery in some industries. However, the impact of the Great East Japan Earthquake caused the index to fall sharply by a record amount. Due in part to the impact of the earthquake on supply chains<sup>5)</sup>, the decline was particularly marked in transport equipment. In April 2011, there were signs of an upturn in some industries, such as electrical machinery and general machinery, despite the ongoing malaise overall (Fig. 1-1-18).

**Fig. 1-1-18 Manufacturing production indices by size and industry**

Production by SMEs was generally picking up until a record fall in March 2011. The decline was especially marked in transport equipment.

(Seasonally adjusted, 2005 = 100)



Sources: Recompiled from METI, *Index of Industrial Production* and *Current Production Statistics Survey*; SME Agency, *Manufacturing Production Indices by Size of Firm*.

Notes: 1. The period covered is from January 2008 to April 2011.

2. The figures for large enterprises were calculated by recompiling from *Indices of Industrial Production*, *Current Production Statistics Survey*, and *Manufacturing Production Indices by Size of Firm*.

### ● Financial position

The *Survey on SME Business Conditions* shows that, boosted by the effects of measures to assist corporate financing, the pre-earthquake financial position DI for

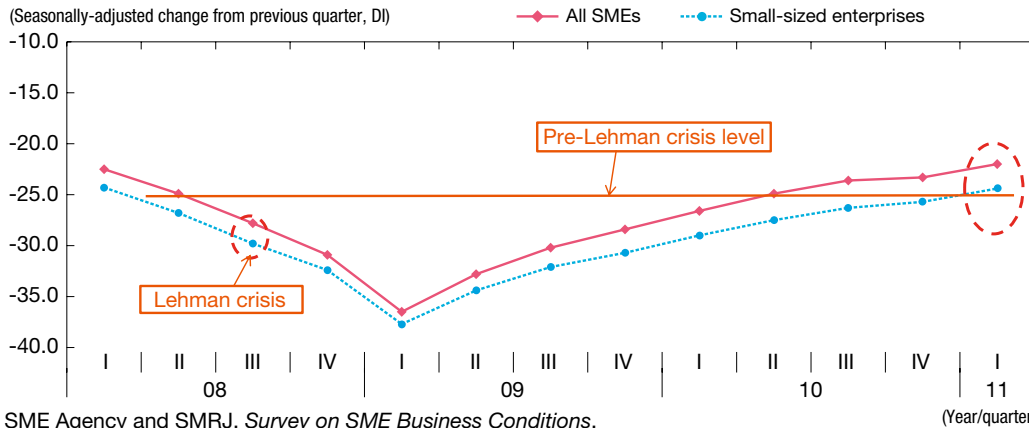
SMEs showed signs of rallying after bottoming out in the first quarter of 2009, and it had recovered at least to its pre-Lehman crisis level by the second quarter of 2010 (Fig. 1-1-19).

4) Production indices are shown by size and industry for the seven industries with the highest value shipments and value added according to METI's 2008 *Census of Manufactures*.

5) The impact of the earthquake on supply chains is examined in detail in Part I, Chapter 2.

**Fig. 1-1-19 Financial position DI for SMEs**

The pre-quake financial position DI for SMEs recovered at least to its pre-Lehman crisis level.



Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

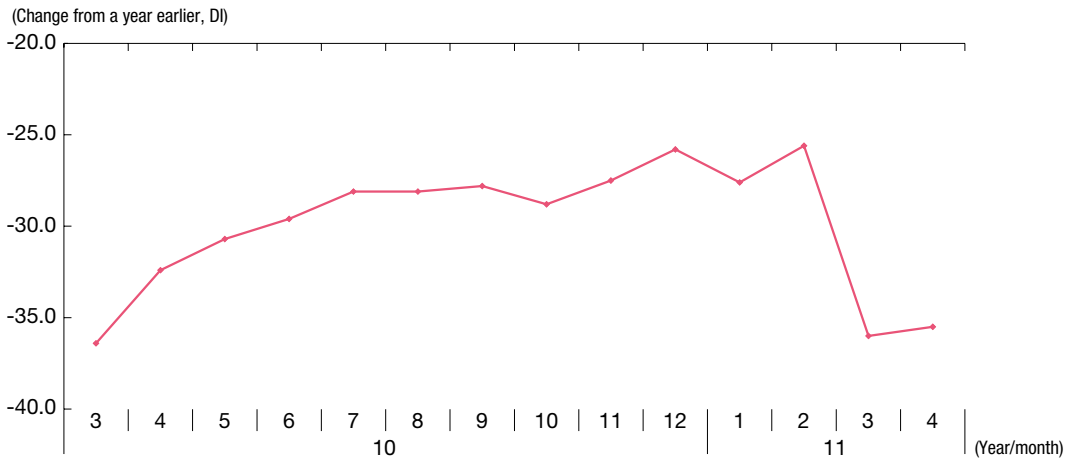
- Notes:
1. The financial position DI is calculated by subtracting the percentage of enterprises that answered “worsened” from the percentage of enterprises that answered “improved” when questioned about their financial position in comparison with the previous quarter.
  2. It should be noted that the survey for 1Q 2011 was conducted on March 1, and so took place before the Great East Japan Earthquake.

The pre-quake financial position DI for SMEs according to the *Monthly Inquiry on SME Business Conditions* had largely been following a recovery trend from the start of

fiscal 2010, but deteriorated drastically in March 2011 when the earthquake struck (Fig. 1-1-20).

**Fig. 1-1-20 Recent movements in the financial position DI for SMEs**

The financial position DI for SMEs worsened drastically in March 2011 when the earthquake struck.



Source: National Federation of Small Business Associations, *Monthly Inquiry on SME Business Conditions*.

- Note: The financial position DI is calculated by subtracting the percentage of enterprises that answered “worsened” from the percentage of enterprises that answered “improved” when questioned about their financial position in comparison with the same month a year ago.

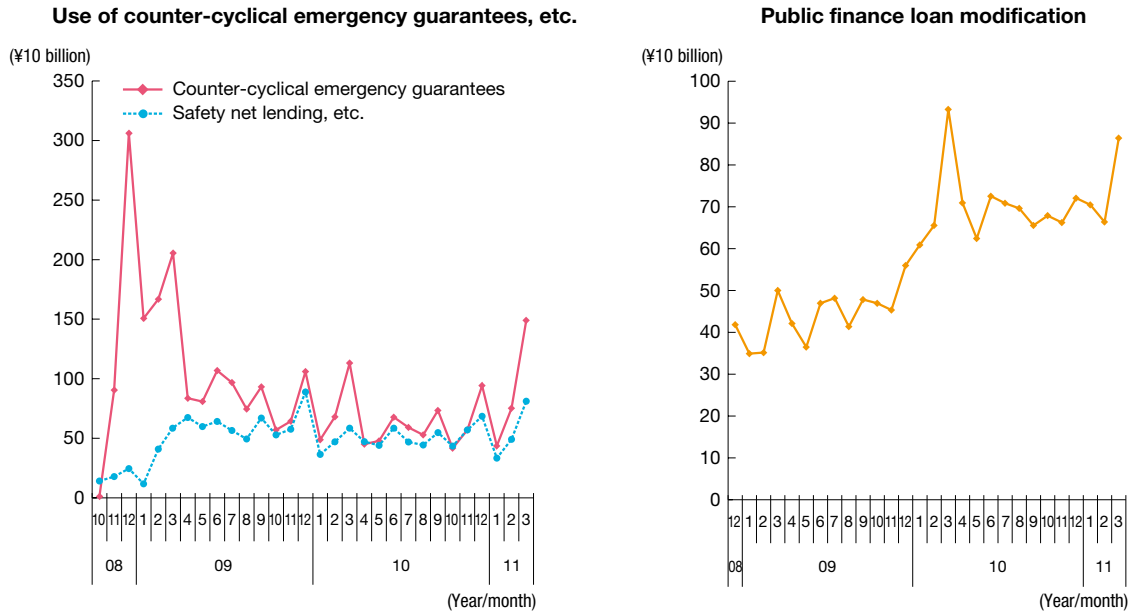
Use of the counter-cyclical Emergency Guarantee Program<sup>6)</sup> and Safety Net Lending Program, etc.<sup>7)</sup> remained below ¥1 trillion even during months of heavy use until the earthquake. On the other hand, use of public finance loan modifications trended upward until the

earthquake as current funding requirements moved from new loans to loan modifications. In March 2011 when the earthquake struck, however, there was substantial growth in both counter-cyclical emergency guarantees and public finance loan modifications (Fig. 1-1-21).

6) Loans provided by Japan Finance Corporation (JFC) to SMEs that have experienced a temporary decline in sales or profits due to changes in social or economic conditions, but whose business conditions are projected to recover in the mid- to long-term.  
 7) Safety Net Lending Program, etc. also includes counter-crisis loans. Counter-crisis loans constitute necessary funds provided by designated financial institutions (Shoko Chukin Bank and the Development Bank of Japan (DBJ)) further to the granting of credit by the JFC at times of crisis due, for example, to financial disorder in Japan or overseas and large scale-disasters. For details of the counter-cyclical Emergency Guarantee Program, Safety Net Lending Program, etc. and counter-crisis loans for SMEs, see Part II, Chapter 2.

**Fig. 1-1-21 Use of counter-cyclical emergency guarantees, etc. and public finance loan modifications**

While use of counter-cyclical emergency guarantees was low and loan modifications continued to rise in fiscal 2010, there was dramatic growth in March 2011.



Source: Compiled by SME Agency.

The earthquake created demand for funds for business reconstruction and all kinds of other purposes, and the SME Agency has adopted measures such as disaster recovery loans to assist SMEs with their financial position.

● **Bankruptcies**

While the number of bankruptcies among SMEs is declining, the downward trend is more gradual among enterprises with four or fewer employees, and the number of bankruptcies among such enterprises is also high. A breakdown by industry shows that the level of bankruptcies of construction is following a gradual downward trend,

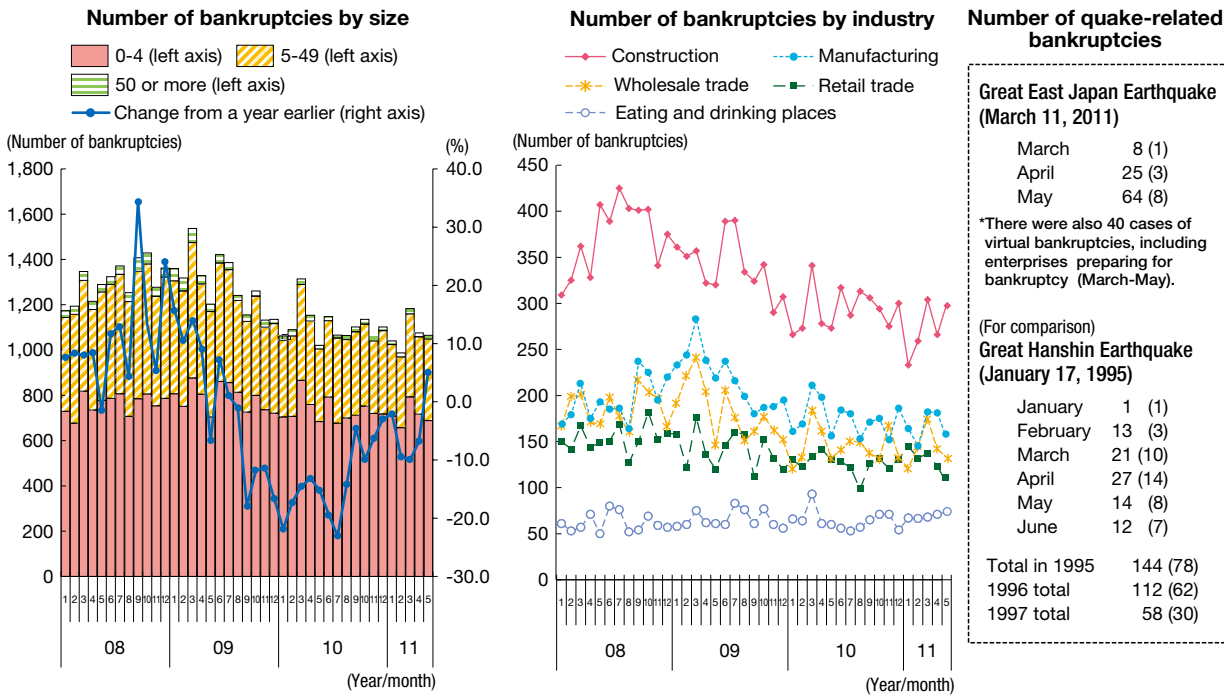
but remains high.

Looking at trends since the earthquake, there were 97 bankruptcies in the subsequent three-month period, of which 12 were due to direct quake damage. In the immediate aftermath of the earthquake, there was more extensive indirect damage than direct damage and, in view of the fact that there was an increase in the number of bankruptcies due to direct damage caused by the Great Hanshin Earthquake in January 1995, the number of bankruptcies resulting from direct damage is expected to rise (Fig. 1-1-22).



**Fig. 1-1-22 Numbers of bankruptcies by size and industry**

While the number of bankruptcies was declining, there has been an increase in quake-related bankruptcies since March 2011.



Source: Tokyo Shoko Research, Ltd., *Business Failure News (Monthly)*.

- Notes: 1. Figures in parentheses indicate the number of bankruptcies due to direct damage.  
 2. The number of quake-related bankruptcies indicates the number identified as such as of June 7, 2011.

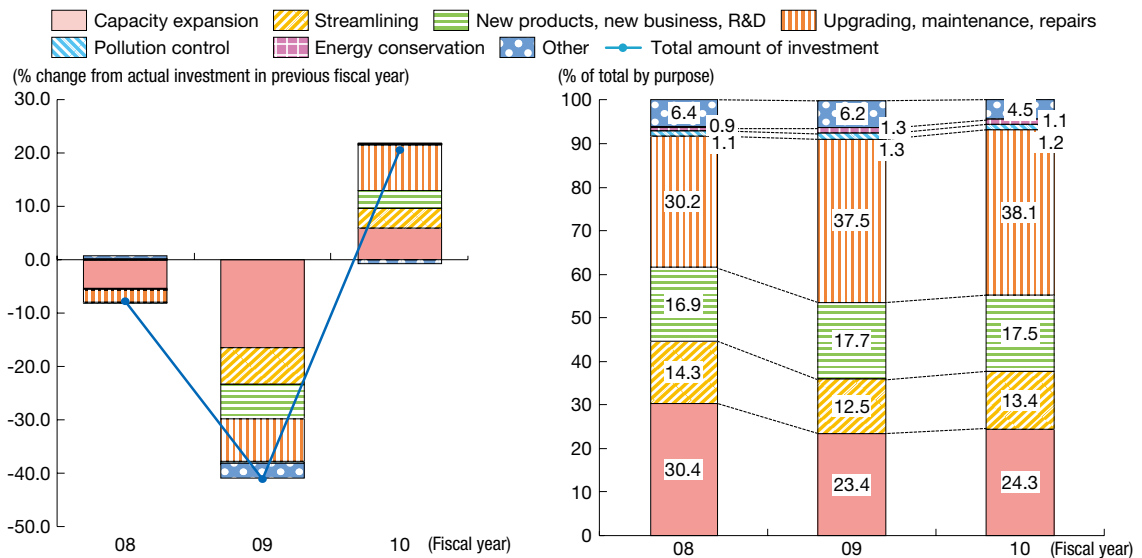
● **Capital investment**

Next, we consider capital investment by SMEs. According to the *Survey of Capital Investment by Small Sized Manufacturers* produced by Japan Finance Corporation (JFC), revised planned investment by SMEs in fiscal 2010 rose 20.6% from fiscal 2009, when actual investment declined at a record rate. A breakdown by objective of the contributors to changes in capital

investment shows the most important to be “upgrading, maintenance, repairs,” followed by “capacity expansion.” It is likely that a considerable number of the investments made in fiscal 2010 consisted of projects that had been postponed from fiscal 2009 (Fig. 1-1-23). Given the destruction of facilities and other damage caused by the earthquake, investment in reconstruction is also anticipated.

**Fig. 1-1-23 Capital investment by small and medium manufacturers (SMMs)**

Capital investment by SMMs grew ca. 20% from fiscal 2009, when investment fell at a record rate, but this was due mainly to spending on “upgrades, maintenance, repairs.” Looking ahead, investment in reconstruction is anticipated.



Source: Japan Finance Corporation (JFC), *Survey of Capital Investment by Small Sized Manufacturers*.  
 Note: Revised planned investment for fiscal 2010 (September 2010) and actual investment for other years.

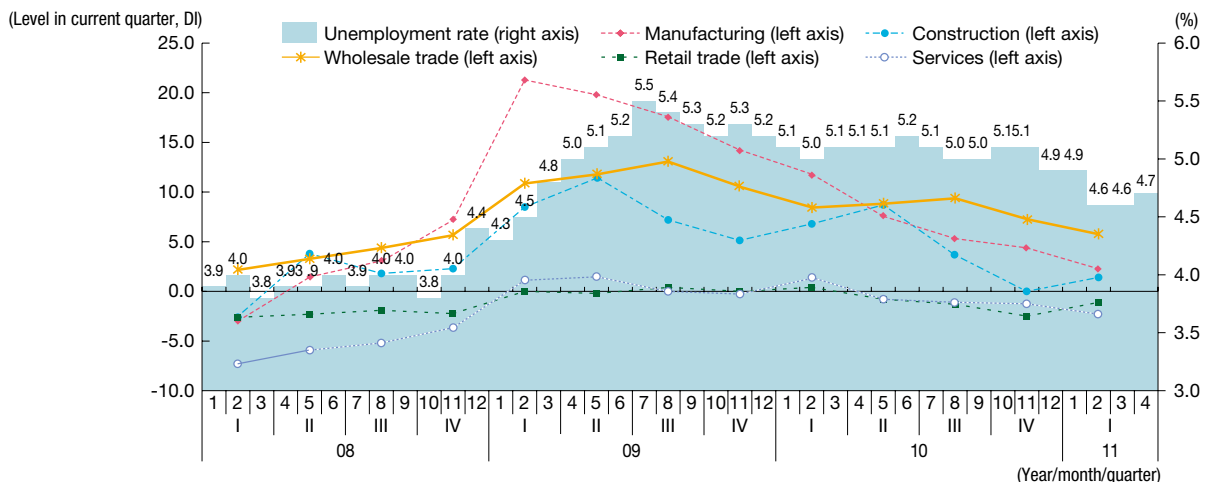
**● Employment**

Having hovered around 4.0% in 2008, the unemployment rate reached a record 5.5% in July 2009. It then remained high at around 5.0% throughout 2010. Due also in part to a firming of business confidence, the employee overcapacity and insufficiency DI for SMEs, which had risen rapidly in manufacturing especially in the first quarter of 2009, steadily declined from the second quarter of the year. In manufacturing and construction, the DI fell

so far that the sense of over-employment appeared to have completely abated. It had been anticipated that further large falls in the employee overcapacity and insufficiency DI in manufacturing and the rest of industry would see the sense of over-employment superseded by one of insufficiency, resulting in a further decline in the unemployment rate. Owing to the effects of the earthquake, however, the employment environment in Japan is again growing uncertain (Fig. 1-1-24).

**Fig. 1-1-24 Employee overcapacity and insufficiency DIs and unemployment rates by industry**

Although the sense of over-employment among SMEs had been gradually easing, the unemployment rate remains high.



Sources: SME Agency and SMRJ, *Survey on SME Business Conditions*; Ministry of Internal Affairs and Communications (MIC), *Labor Force Survey*.

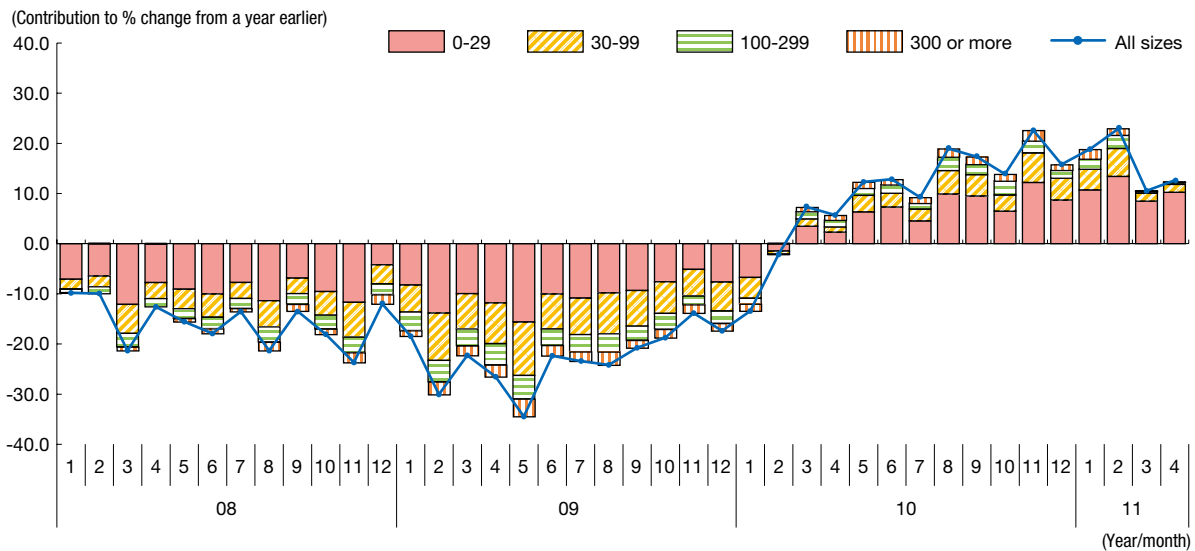
- Notes:
1. The employee overcapacity and insufficiency DI is calculated by subtracting the percentage of enterprises that answered “insufficient” from the percentage of enterprises that answered “excess” when questioned about the number of employees in the present quarter.
  2. It should be noted that the survey for the employee overcapacity and insufficiency DI in 1Q 2011 was conducted on March 1, and so took place before the Great East Japan Earthquake.
  3. The unemployment rates for March and April 2011 are for the whole of Japan excluding the prefectures of Iwate, Miyagi, and Fukushima.

The number of new openings entered an upswing year on year from March 2010, due especially to a rise in openings at enterprises with 29 or fewer employees.

In March 2011, however, the effects of the earthquake contributed to a decline in the rate of growth year on year (Fig. 1-1-25).

**Fig. 1-1-25 Factor analysis of rates of growth in new job openings by size (contributions to change from a year earlier)**

Small-sized enterprises were the main contributors to year-on-year growth in new openings from March 2010. However, growth slowed in March 2011 due also to the quake.



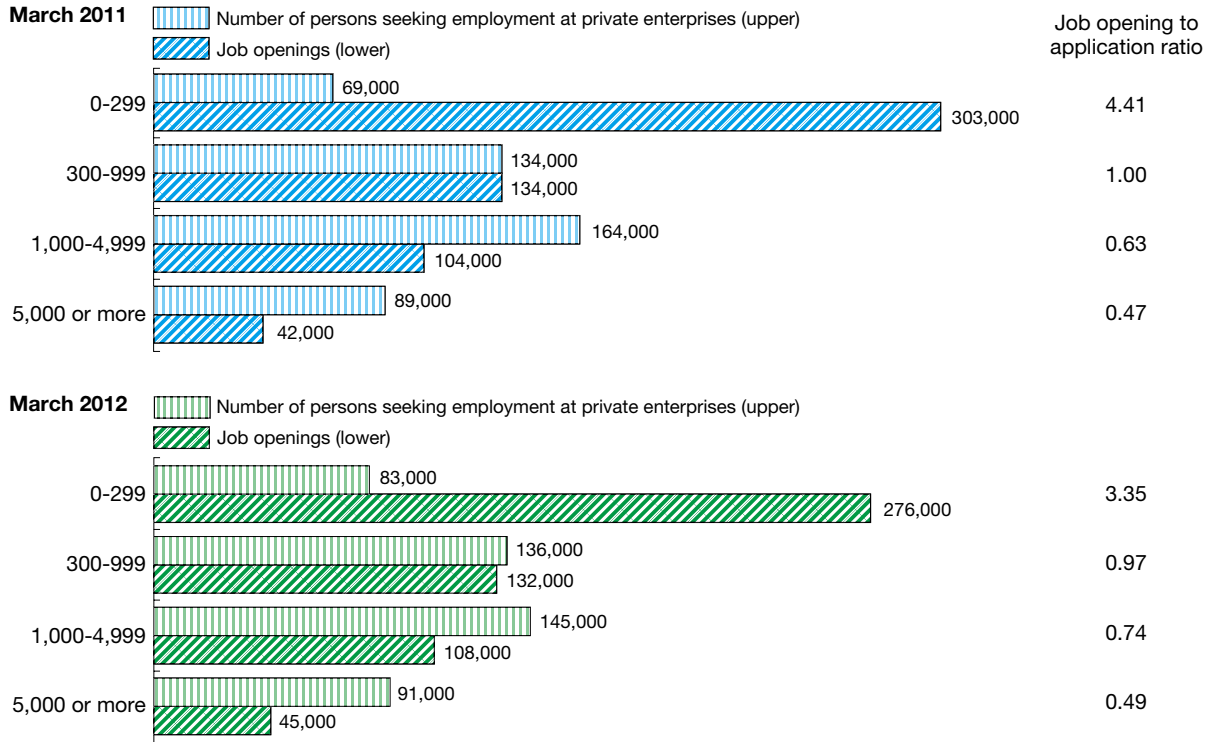
Source: Ministry of Health, Labour and Welfare (MHLW), *Report on Employment Service*.  
 Note: Job openings include those for part-time employees.

Furthermore, while more university students graduating in March 2011 sought employment at private enterprises with 1,000 or more employees than there were openings available, the corresponding number for enterprises with fewer than 300 employees was around one quarter of the number of openings. Among university students graduating in March 2012, the number seeking employment at enterprises with 300 or more employees also exceeded the number of job openings, but was lower than the number of job openings at enterprises with fewer than 300. The gap in job opening to application ratios between enterprises of different sizes is closing, with the ratio for enterprises with 300 or fewer workers falling from 4.41 in 2011 to 3.35 in 2012. While the mismatch of supply and demand is ameliorating, however, there remain

a considerable number of small-sized enterprises that find it hard recruiting new graduates (Fig. 1-1-26(1)). To ease this mismatch between SMEs and young job seekers, the Government has put in place a number of support measures. These include the New Graduate Employment Support Project, which provides opportunities to do extended internships at SMEs, and the Dream-Match Project, which is an online job clearinghouse for job seekers and SMEs with job openings (Fig. 1-1-26(2)). The earthquake has also affected recruitment of new graduates, as it has forced some enterprises to suspend or postpone their recruitment activities. The Government has urged employers not to retract job offers that have been made, and is working to publicize information about enterprises that are actively hiring.

**Fig. 1-1-26(1) Job opening to application ratios for university students graduating in March 2011 and March 2012**

Fewer March 2011 and March 2012 graduates are seeking jobs at enterprises with fewer than 300 employees than there are job openings.



Source: Works Institute, Recruit Co., Ltd., *Works University Graduate Job-Opening to Application Ratio Survey* (April 2010, May 2011).

Note: Job opening to application ratio = total number of job openings / number of persons seeking employment at private enterprises

**Fig. 1-1-26(2) New Graduate Employment Support Project and Dream-Match Project**

**◆New Graduate Employment Support Project**

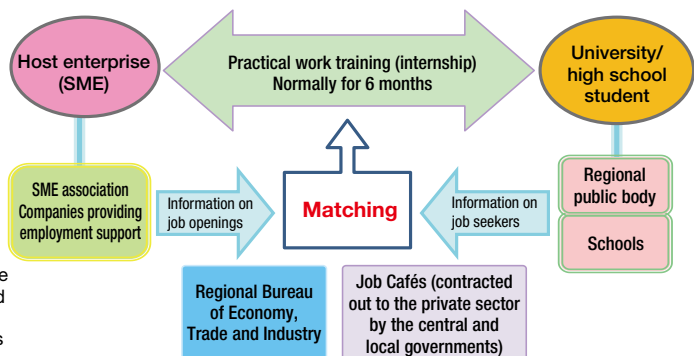
The purpose of this program is to match new job seekers with SMEs that are interested in hiring by providing internships at SMEs for individuals who have yet to receive offers of employment.

**Details of support**

- (1) The program is open to individuals who graduated within the past three years and have yet to receive a job offer.
- (2) Internships normally consist of six months of practical training in the workplace.
- (3) During internships, interns and host SMEs receive daily grants worth ¥7,000 and ¥3,500 respectively.

**◆Dream-Match Project**

This program helps match job seekers with employers by using the Internet to showcase the attractions of SMEs that are unable (due to cost, time, or lack of know-how) to actively seek out and recruit new graduates. Additional joint events are organized for employer presentations to encourage job seekers to either return to the provinces or else seek out employment there for the first time.



● **Impact of the strong yen**

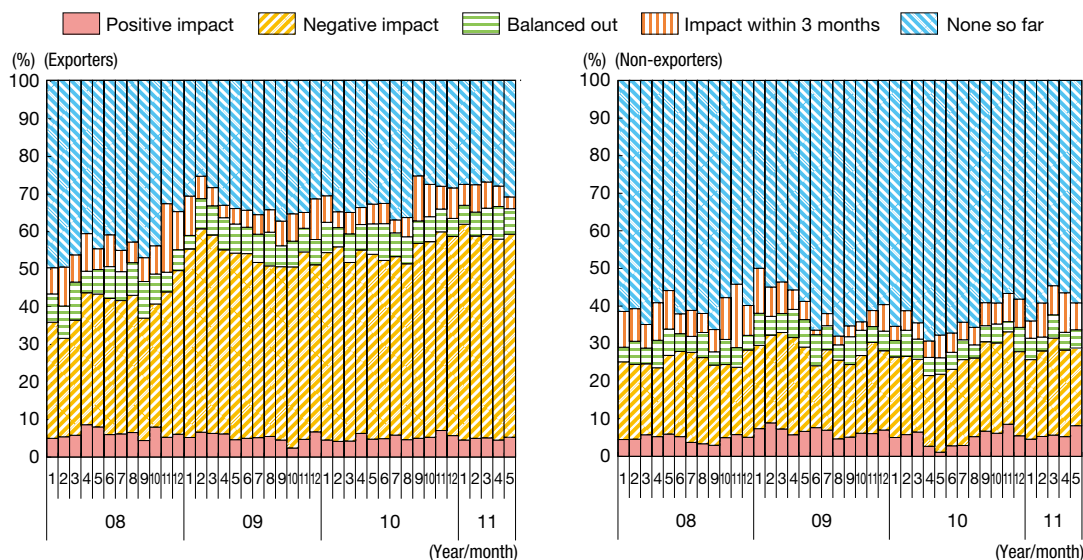
Having looked in Section 1 at the yen’s rapid appreciation in fiscal 2010, let us now consider the impact of the strong yen on SMEs.

In order to do so, we divide SMEs into exporters and non-exporters using the results of the JFC’s *Survey on*

*SME Business Conditions*. Throughout fiscal 2010, an increasing proportion of exporting SMEs reported that they were negatively affected by the strength of the yen, with approximately 60% of exporting SMEs and 20% of non-exporting SMEs saying that it was having a negative impact on them (Fig. 1-1-27).

**Fig. 1-1-27 Impact of strong yen**

Approximately 60% of exporting SMEs and 20% of non-exporting SMEs reported being negatively affected by the strong yen.



Source: Compiled from JFC, *Survey on SME Business Conditions*.

- Notes: 1. Enterprises that responded “unaffected due to nature of industry” are excluded.  
 2. “Exporters” is the sum of enterprises that have either direct or indirect exports.

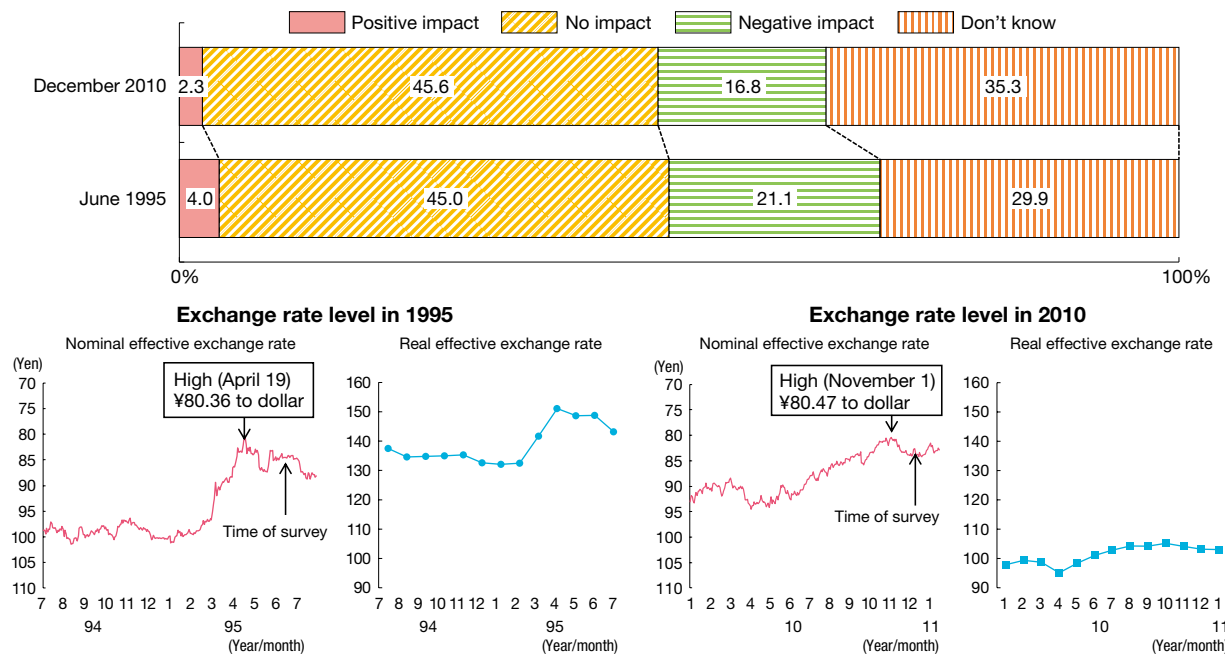
The JFC’s *Survey Findings on the Impact of the Strong Yen on Small Enterprises*<sup>8)</sup> offers a comparison of the strong yen periods in 1995 and at the end of 2010. This shows that whereas the proportion of enterprises that reported experiencing a negative impact in June 1995 was 21.1%, the corresponding proportion in December 2010 was 16.8%. This indicates that, in comparison with

1995, a smaller proportion of enterprises are this time being negatively affected. There are several reasons for this, including the steps taken by enterprises since 1995 to make themselves better able to cope with the effects of a strong yen, and the weaker yen on this occasion measured in terms of the real effective exchange rate (Fig. 1-1-28).

8) It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

**Fig. 1-1-28 Comparison with impact of strong yen in 1995**

Compared with 1995 when the yen appreciation sharply, proportionately fewer enterprises reported negative effects in 2010.



Source: Compiled from JFC, *Survey Findings on the Strong Yen's Impact on Small Enterprises* (early/mid December 2010); Bank of International Settlements (BIS) website.

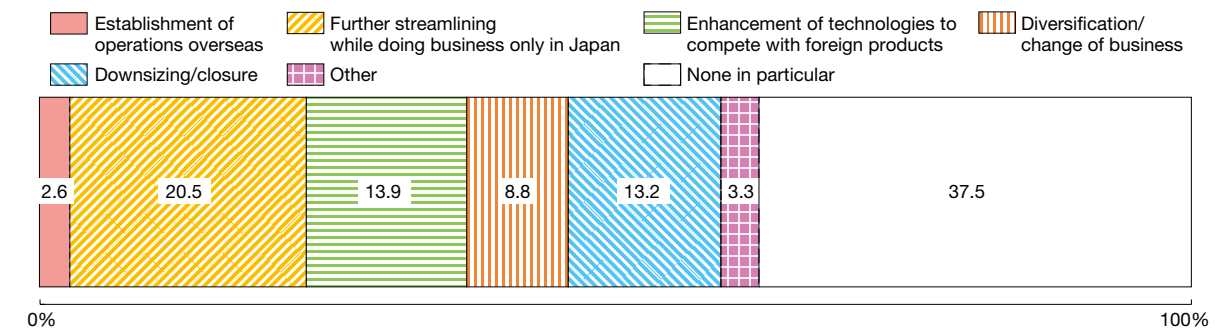
- Notes:
1. The survey covered manufacturers with 20 or fewer employees that were customers of JFC.
  2. Figures for nominal exchange rates are closing values.
  3. The yen recorded what was then an all-time high of ¥79.75 to the dollar during trading on April 19, 1995.
  4. Figures for real effective exchange rates are monthly averages and were calculated based on the consumer price index (CPI).

Faced with these circumstances, some manufacturers are taking steps to cope with a strong yen in the future. These include “further streamlining while doing business

only in Japan,” “enhancement of technologies to compete with foreign products,” and “diversification/change of business” (Fig. 1-1-29).

**Fig. 1-1-29 Future action to cope with strong yen (manufacturing)**

To cope with a strong yen in the future, some manufacturers are taking steps including “further streamlining limited to Japan,” “enhancement of technologies to compete with foreign products,” and “diversification/change of business”.



Source: JFC, *Survey Findings on the Strong Yen's Impact on Small Enterprises* (early/mid December 2010).

Note: The survey covered manufacturers with 20 or fewer employees that were customers of JFC.

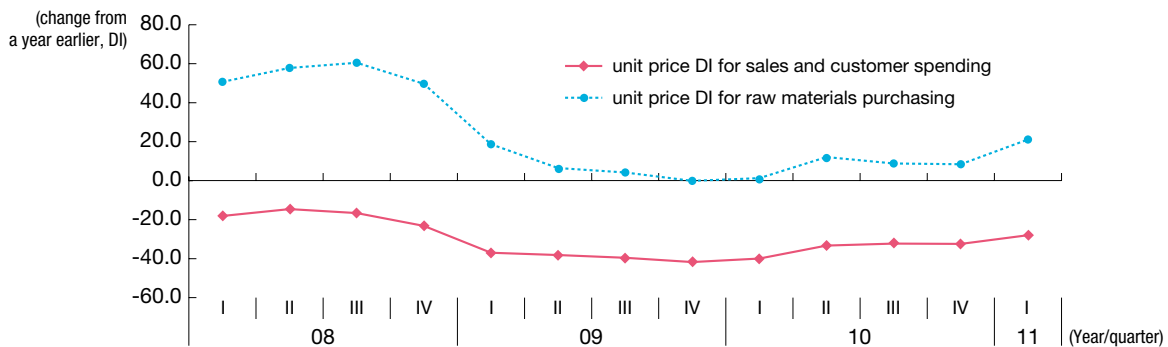
● **Impact of soaring crude oil and food prices**

Having demonstrated in Section 1 that crude oil and food prices trended upward throughout fiscal 2010, we consider next how this affected SMEs. In doing so, we use the results of the *Survey on SME Business Conditions*, the unit price DI for sales and customer spending, and the unit price DI for raw materials purchasing. While the unit price DI for sales and customer spending is easing upward,

the unit price DI for raw materials purchasing surged up from the fourth quarter of 2010 to the first quarter of 2011. This indicates that SMEs continue to face severe revenue conditions, and are finding themselves unable to quickly pass on the cost of raw material procurements to a sufficient extent in the prices of their products and services (Fig. 1-1-30).

**Fig. 1-1-30 Unit price DI for raw materials purchasing and unit price DI for sales and customer spending**

While unit price DI for sales and customer spending eased upward throughout fiscal 2010, the unit price DI for raw materials purchasing rose dramatically in the first quarter of 2011 as SMEs continued to face difficult revenue conditions.



Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

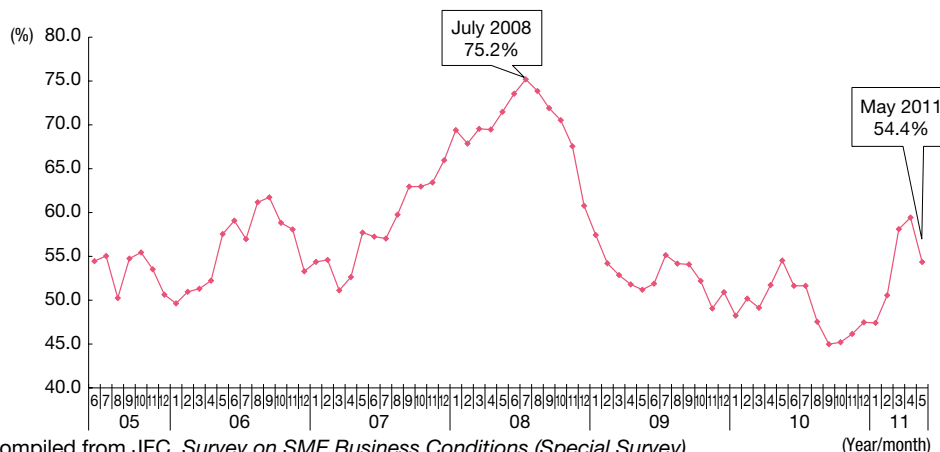
- Notes:
1. The unit price DI for sales and customer spending is calculated by subtracting the percentage of enterprises that answered “declined” from the percentage of enterprises that answered “rose” when questioned about their unit prices for sales and customer spending compared with the same quarter a year earlier.
  2. The unit price DI for raw materials purchasing is calculated by subtracting the percentage of enterprises that answered “declined” from the percentage of enterprises that answered “rose” when questioned about their unit prices for raw materials purchasing compared with the same quarter a year earlier.
  3. It should be noted that the survey for 1Q 2011 was conducted on March 1, and so took place before the Great East Japan Earthquake.

Next, we look at the impact of rising crude oil and petroleum product prices on SMEs using the results of the JFC’s *Survey on SME Business Conditions*. These show that from September 2010, the proportion of enterprises reporting that “soaring crude oil and petroleum product

prices are squeezing revenues” generally rose. As Fig. 1-1-9 illustrated, the crude oil price and food price index remain high, and the impact of this on SMEs will have to continue to be watched closely (Fig. 1-1-31).

**Fig. 1-1-31 Impact of soaring crude oil and petroleum product prices**

From September 2010, the proportion of SMEs reporting that “soaring crude oil and petroleum product prices are squeezing revenues” has generally been on the rise.



Source: Compiled from JFC, *Survey on SME Business Conditions (Special Survey)*.

- Notes:
1. The respondents consisted of enterprises that are customers of JFC in the three major urban areas of Japan.
  2. Total proportion of enterprises that responded that soaring crude oil and petroleum product prices are “significantly squeezing revenues” or “somewhat squeezing revenues.”

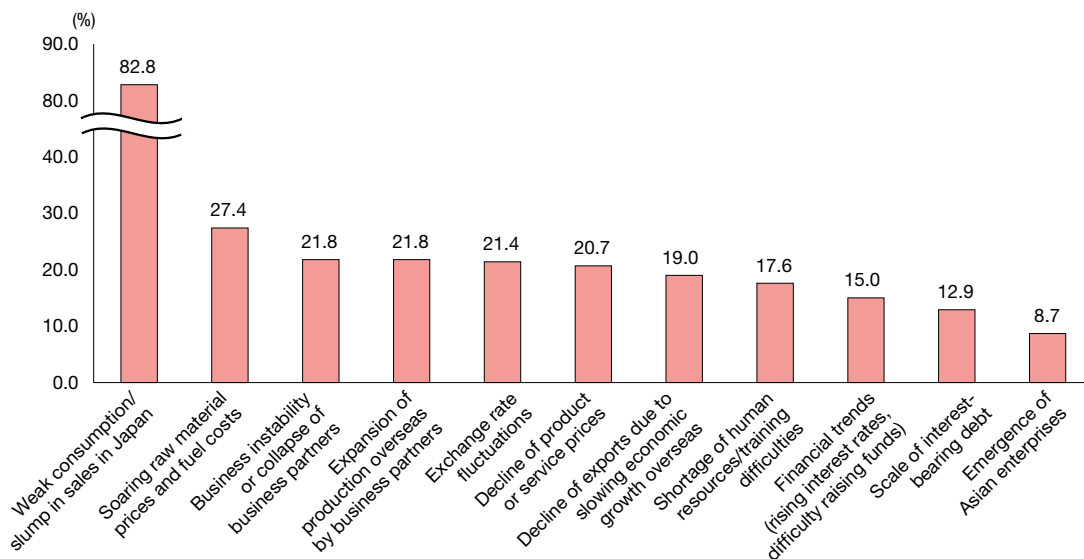
### ● Future outlook

Having so far looked at trends among SMEs in fiscal 2010, we consider next the concerns and uncertainties entertained by SMEs regarding the future. According to the JFC's *Business Outlook for SMEs in 2011*,<sup>9)</sup> carried out in December 2010, approximately 80% of the respondents gave "weak consumption/slump in sales in

Japan" and some 30% gave "soaring raw material prices and fuel costs" as concerns about 2011. Reflecting the present underlying strength of the yen, high proportions also cited "expansion of production overseas by business partners" or "exchange rate fluctuations" (Fig. 1-1-32). In addition to these factors, the impact of the earthquake is another concern.

**Fig. 1-1-32 Concerns in 2011**

Concerns in 2011 include not only exchange rate fluctuations, but also weak consumption and slumping sales in Japan, and soaring raw material prices and fuel costs. Another concern is the impact of the earthquake.



Source: JFC, *Business Outlook for SMEs in 2011* (December 2010).

- Notes:
1. The respondents consisted of enterprises that are customers of JFC in the three major urban areas of Japan.
  2. Totals do not necessarily sum to 100 due to multiple responses.

To summarize this section, business conditions among SMEs had appeared to be improving, though the extent of the recovery did vary according to size of enterprise and industry. Currently, however, conditions are worsening owing to the impact of the Great East Japan Earthquake. Several factors also pose potential future risks, including

the continuing appreciation of the yen and the impact of soaring crude oil and food prices.

In the next chapter, we examine in greater detail the impact on SMEs of the unprecedented devastation caused by the Great East Japan Earthquake.

9) It must be noted that this survey was conducted in December 2010, and so took place before the Great East Japan Earthquake.



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## Chapter 2

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### Impact of the Great East Japan Earthquake on SMEs

The magnitude 9.0 earthquake that struck off the coast of Sanriku at 14:46 on March 11, 2011, was the most powerful ever recorded in Japan, and the compounded effects of the massive tremor and the subsequent tsunami, nuclear power plant accident, and power supply constraints caused far-reaching and tremendous damage to SMEs. Estimates of the damage in seven prefectures released by the Cabinet Office on March 23, 2011, put the cost of the direct damage to infrastructure and other property at between ¥16 trillion and ¥25 trillion. This is significantly more than the cost of the direct damage caused by the Great Hanshin Earthquake, which the National Land Agency estimated to amount to approximately ¥9.6 trillion, and gives some indication of the scale of the disaster.<sup>1)</sup> The damage took all kinds of forms, some of which have yet to become apparent. Broadly speaking, however, the effects can be divided into the following: effects of the tsunami, effects of the earthquake, effects of the nuclear power plant accident, effects of power supply constraints, and other effects affecting the whole of Japan.

Fig. 1-2-1(1) shows the numbers of enterprises and so on in the affected regions. From this it can be seen that there are approximately 80,000 enterprises<sup>2)</sup> in regions affected by the tsunami (“tsunami-affected regions”), 740,000 enterprises<sup>3)</sup> in regions affected by the earthquake (“quake-affected regions”), 8,000 enterprises<sup>4)</sup> in nuclear evacuation areas,<sup>5)</sup> and 1,450,000 enterprises<sup>6)</sup> in prefectures in Tokyo Electric Power Company’s (“TEPCO”) service area.

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- 1) The seven prefectures are: Hokkaido, Aomori, Iwate, Miyagi, Fukushima, Ibaraki, and Chiba.  
See Cabinet Office, “Materials for the Special Earthquake Response Meeting of the Ministerial Conference on the Monthly Economic Report, etc.: Analysis of the Macroeconomic Effects of the Great East Japan Earthquake.”  
For details, see: <http://www5.cao.go.jp/keizai/bousai/pdf/keizaitekieikyuu.pdf>.
- 2) The aggregate of enterprises in the 39 municipalities in the prefectures of Aomori, Iwate, Miyagi, and Fukushima subject to the Disaster Relief Act due to the Great East Japan Earthquake (as of March 24, 2011) that were reported as having suffered flooding caused by the tsunami according to *Approximate Estimates of the Extent of Flooding Caused by the Tsunami (Report No. 5)* published by the Geographical Survey Institute on April 18. The figures for Sendai City are for the wards of Miyagino, Wakabayashi, and Taihaku.
- 3) The Aoba and Izumi wards of Sendai City and municipalities subject to the Disaster Relief Act due to the Great East Japan Earthquake (as of March 24, 2011) excluding the 39 municipalities in the prefectures of Aomori, Iwate, Miyagi, and Fukushima that suffered flooding caused by the tsunami according to *Approximate Estimates of the Extent of Flooding Caused by the Tsunami (Report No. 5)* published by the Geographical Survey Institute on April 18.
- 4) The aggregate of enterprises in the following municipalities which contain nuclear evacuation areas: Tamura City, Minamisoma City, Kawamata Town, Hirono Town, Naraha Town, Tomioka Town, Kawauchi Village, Okuma Town, Futaba Town, Namie Town, Katsurao Village, and Iitate Village.
- 5) “Nuclear evacuation areas” here means the restricted areas, deliberate evacuation areas, and emergency evacuation-prepared areas established under the Act on Special Measures Concerning Nuclear Emergency Preparedness.
- 6) The aggregate of enterprises in the following prefectures: Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa, Yamanashi, and Shizuoka.

### Fig. 1-2-1-(1) Numbers of enterprises, product shipments, and sales of goods in affected regions

There are approximately 80,000 enterprises in tsunami-affected regions, 740,000 in quake-affected regions, 8,000 in nuclear evacuation areas, and 1,450,000 in Tokyo Electric Power Company's (TEPCO) service area.

#### 1) Tsunami-affected regions<sup>1)</sup>

Number of enterprises (2009)	75,098
Value of product shipments (2008)	¥4.4 trillion
Value of sales of goods (2007)	¥7.4 trillion

#### 3) Nuclear evacuation areas<sup>3)</sup>

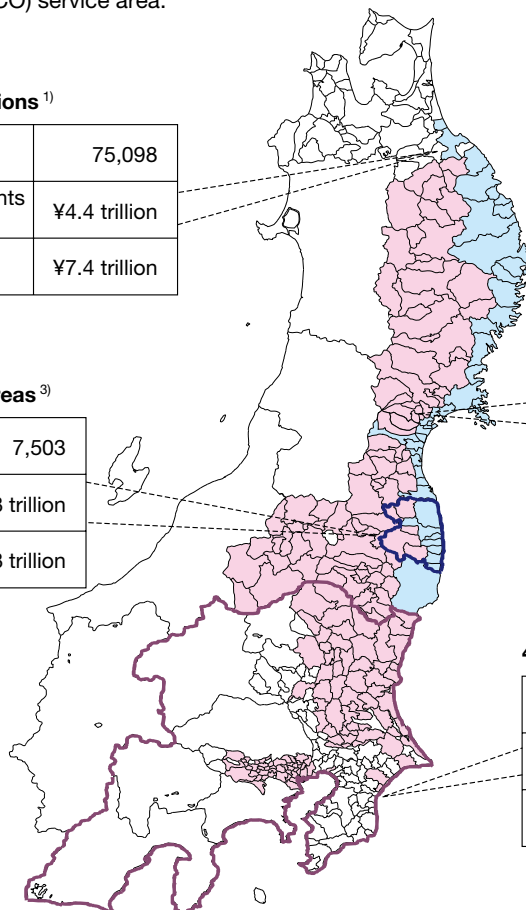
Number of enterprises (2009)	7,503
Value of product shipments (2008)	¥0.3 trillion
Value of sales of goods (2007)	¥0.3 trillion

#### 2) Quake-affected regions<sup>2)</sup>

Number of enterprises (2009)	742,462
Value of product shipments (2008)	¥35.6 trillion
Value of sales of goods (2007)	¥206.5 trillion

#### 4) Prefectures in TEPCO's service area<sup>4)</sup>

Number of enterprises (2009)	1,454,598
Value of product shipments (2008)	¥111.6 trillion
Value of sales of goods (2007)	¥262.9 trillion



Sources: MIC, 2009 Economic Census: Basic Survey; METI, 2008 Census of Manufactures, 2007 Census of Commerce.

- Notes:
1. The 39 municipalities in the prefectures of Aomori, Iwate, Miyagi, and Fukushima subject to the Disaster Relief Act due to the Great East Japan Earthquake (as of March 24, 2011) that were reported as having suffered flooding caused by the tsunami according to *Approximate Estimates of the Extent of Flooding Caused by the Tsunami (Report No. 5)* published by the Geographical Survey Institute on April 18. Figures for Sendai City are for the wards of Miyagino, Wakabayashi, and Taihaku.
  2. The Aoba and Izumi wards of Sendai City and municipalities subject to the Disaster Relief Act due to the Great East Japan Earthquake (as of March 24, 2011) excluding the 39 municipalities in the prefectures of Aomori, Iwate, Miyagi, and Fukushima that suffered flooding caused by the tsunami according to *Approximate Estimates of the Extent of Flooding Caused by the Tsunami (Report No. 5)* published by the Geographical Survey Institute on April 18.
  3. The municipalities containing nuclear evacuation areas consist of the following in their entirety: Tamura City, Minamisoma City, Kawamata Town, Hirono Town, Naraha Town, Tomioka Town, Kawauchi Village, Okuma Town, Futaba Town, Namie Town, Katsurao Village, and Iitate Village.
  4. The aggregate of enterprises in the following prefectures: Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa, Yamanashi, and Shizuoka.

Identifying the affected regions in greater detail, Fig. 1-2-1 (2) gives a breakdown by size of the affected enterprises and business establishments in these regions. From this it can be seen that there were approximately 38,000 enterprises<sup>7)</sup> in the tsunami-affected regions,

780,000 enterprises<sup>8)</sup> in the quake-affected regions, 5,000 enterprises<sup>9)</sup> in the nuclear evacuation areas, and 1,360,000 enterprises<sup>10)</sup> in TEPCO's service area, and that SMEs made up almost all of the enterprises in the affected regions.

- 7) The aggregate of enterprises in survey divisions containing areas of flooding identified from *Summary Maps of the Extent of Flooding* published by the Geographical Survey Institute on April 18, 2011.
- 8) The aggregate of enterprises in municipalities subject to the Disaster Relief Act due to the Great East Japan Earthquake (as of March 24, 2011) excluding survey districts containing areas of flooding identified from *Summary Maps of the Extent of Flooding* published by the Geographical Survey Institute on April 18, 2011.
- 9) The aggregate of enterprises in restricted areas, deliberate evacuation areas, and emergency evacuation-prepared areas established under the Act on Special Measures Concerning Nuclear Emergency Preparedness.
- 10) The aggregate of enterprises in the following prefectures: Tochigi, Gunma, Ibaraki, Saitama, Chiba, Tokyo, Kanagawa, Yamanashi, and Shizuoka (east of Fuji River).

**Fig. 1-2-1-(2) Numbers of enterprises and business establishments in the affected regions**

There are approximately 38,000 enterprises in the tsunami-affected regions, 780,000 in the quake-affected regions, 5,000 in the nuclear evacuation areas, and 1,360,000 in TEPCO's service area. SMEs made up almost all of the enterprises in the affected regions.

	Enterprises	SMEs	Large enterprises	% of SMEs
Tsunami-affected regions <sup>1</sup>	38,005	37,972	33	99.9
Quake-affected regions <sup>2</sup>	779,261	774,058	5,203	99.3
Nuclear evacuation zones <sup>3</sup>	5,341	5,339	2	100.0
TEPCO service area <sup>4</sup>	1,360,159	1,353,941	6,218	99.5
	Business establishments	SME business establishments	Large enterprise business establishments	% of SME business establishments
Tsunami-affected regions <sup>1</sup>	46,089	41,816	4,273	90.7
Quake-affected regions <sup>2</sup>	978,722	850,386	128,336	86.9
Nuclear evacuation zones <sup>3</sup>	6,476	5,845	631	90.3
TEPCO service area <sup>4</sup>	1,697,591	1,482,741	214,850	87.3

Source: Recompiled from MIC, 2009 *Economic Census: Basic Survey*.

- Notes:
1. Survey divisions containing areas of flooding identified from *Summary Maps of the Extent of Flooding* published by the Geographical Survey Institute on April 18, 2011.
  2. Districts of municipalities subject to the Disaster Relief Act due to the Great East Japan Earthquake (as of March 24, 2011) excluding survey districts containing areas of flooding identified from *Summary Maps of the Extent of Flooding* published by the Geographical Survey Institute on April 18, 2011.
  3. Control zones, planned evacuation areas, and emergency evacuation-ready zones established under the Act on Special Measures Concerning Nuclear Emergency Preparedness.
  4. Figures are for the following prefectures: Tochigi, Gunma, Ibaraki, Saitama, Chiba, Tokyo, Kanagawa, Yamanashi, and Shizuoka (east of Fuji River).
  5. *Summary Maps of the Extent of Flooding* summarizes the results of identification of areas flooded by the tsunami as determined using aerial photographs taken after the earthquake by the Geographical Survey Institute and satellite photo observations. It is therefore possible that some areas of flooding may not have been properly identified due to cloud cover, etc.
  6. Survey districts are the smallest geographical units used in the *Economic Census: Basic Survey*, and represent the districts handled by statistical surveyors. The figures for survey districts corresponding to areas of flooding (including those affected by partial flooding) are aggregated based on these aggregate results.
  7. Compiled by Naomi Kodama, Senior Analyst for Industry Research in the Service Affairs Policy Division of the Commerce and Information Policy Bureau, METI.

The amount of damage to commerce, industry, and so on identified by the prefectures of Aomori, Iwate, Miyagi, and Fukushima is shown in Fig. 1-2-2. From this it can be seen that industry, commerce, and tourism all suffered

heavy damage, with the cost coming to ¥37.8 billion in Aomori, ¥166.1 billion in Iwate, ¥730.0 billion in Miyagi, and ¥359.7 billion in Fukushima.<sup>11)</sup>

11) In the case of Aomori Prefecture, only damage reported by chambers of commerce and industry and societies of commerce and industry is included.

Damage to the industry in the prefectures of Iwate, Miyagi, and Fukushima was estimated based on industry statistics taking into consideration the state of damage in each region. Damage to commerce was estimated based on commerce statistics for stores (buildings and goods) in coastal municipalities taking into consideration the state of damage in each region. Damage to tourism was estimated based on statistics on construction starts (using the unit prices of buildings for accommodation) of facilities in coastal municipalities taking into consideration the state of damage in each region.

The state of damage is as of the time of publication and is subject to future change.

**Fig. 1-2-2 Cost of damage to commerce, industry, and tourism in the prefectures of Aomori, Iwate, Miyagi, and Fukushima**

Estimates of the economic damage caused by the earthquake in each of the prefectures near the epicenter show that industry, commerce, and tourism all severed heavily.

**Cost of damage in Aomori Prefecture**

Commerce and industry	¥37.6 billion
Tourism	¥0.2 billion
<b>Total</b>	<b>¥37.8 billion</b>

Source: "Damage Caused by the 2011 Great East Japan Earthquake (41st Report)" (as of May 16, 2011).

**Cost of damage in Iwate Prefecture**

Industry	¥89.0 billion
Commerce	¥44.5 billion
Tourism	¥32.6 billion
<b>Total</b>	<b>¥166.1 billion</b>

Source: Data compiled by the Commerce and Industry Planning Office, Commerce, Industry, Labor and Tourism Department (as of April 11, 2011).

Note: Figures indicate the aggregate cost of damage to property swept away or flooded by the tsunami. Damage such as the collapse of structures due to the earthquake is not included.

**Cost of damage in Miyagi Prefecture.**

Industry	¥590.0 billion
Commerce	¥120.0 billion
Tourism	¥20.0 billion
<b>Total</b>	<b>¥730.0 billion</b>

Source: "State of Facilities, etc. under the Oversight of the Great East Japan Earthquake Economy, Commerce, Industry and Tourism Department (63rd Report Concerning the Economy, Commerce, Industry and Tourism Department)" (as of April 26, 2011).

**Cost of damage in Iwate Prefecture**

Industry	¥219.8 billion
Commerce	¥139.9 billion
<b>Total</b>	<b>¥359.7 billion</b>

Source: "Summary Report of the Commercial and Industrial General Affairs Section, Commerce, Industry and Labor Department, Fukushima Prefecture" (As of April 25, 2011).

Note: Total cost of damage caused by the earthquake and tsunami. Estimates do not include damage due to the accident at the Fukushima Daiichi Nuclear Power Plant.

\* In the case of Aomori Prefecture, only the cost of damage reported by chambers of commerce and industry and societies of commerce and industry is included.

Damage to the industry in the prefectures of Iwate, Miyagi, and Fukushima was estimated based on industry statistics taking into consideration the state of damage in each region. Damage to commerce was estimated based on commerce statistics for stores (buildings and goods) in coastal municipalities taking into consideration the state of damage in each region. Damage to tourism was estimated based on statistics on construction starts (using the unit prices of buildings for accommodation) of facilities in coastal municipalities taking into consideration the state of damage in each region.

\* The state of damage is as of the time of publication and is subject to future change.

In the following sections we examine the concrete impacts of the earthquake experienced by SMEs, beginning with the effects of the tsunami in Section 1. We then look at the effects of the earthquake in Section 2, the

effects of the nuclear power plant accident in Section 3, the effects of power supply constraints in Section 4, and other effects on the entire country in Section 5.

## Section 1 Effects of the tsunami

The March 11 earthquake was followed by an enormous tsunami that caused catastrophic damage to industrial infrastructure, such as plants, stores, and ports, and to essential local community services in and around

the coastal regions of northeast Japan, and SMEs also suffered enormous damage.

Below, we analyze the characteristics of the tsunami-affected regions and the effects of the tsunami on SMEs.

### ● Characteristics of the tsunami-affected regions

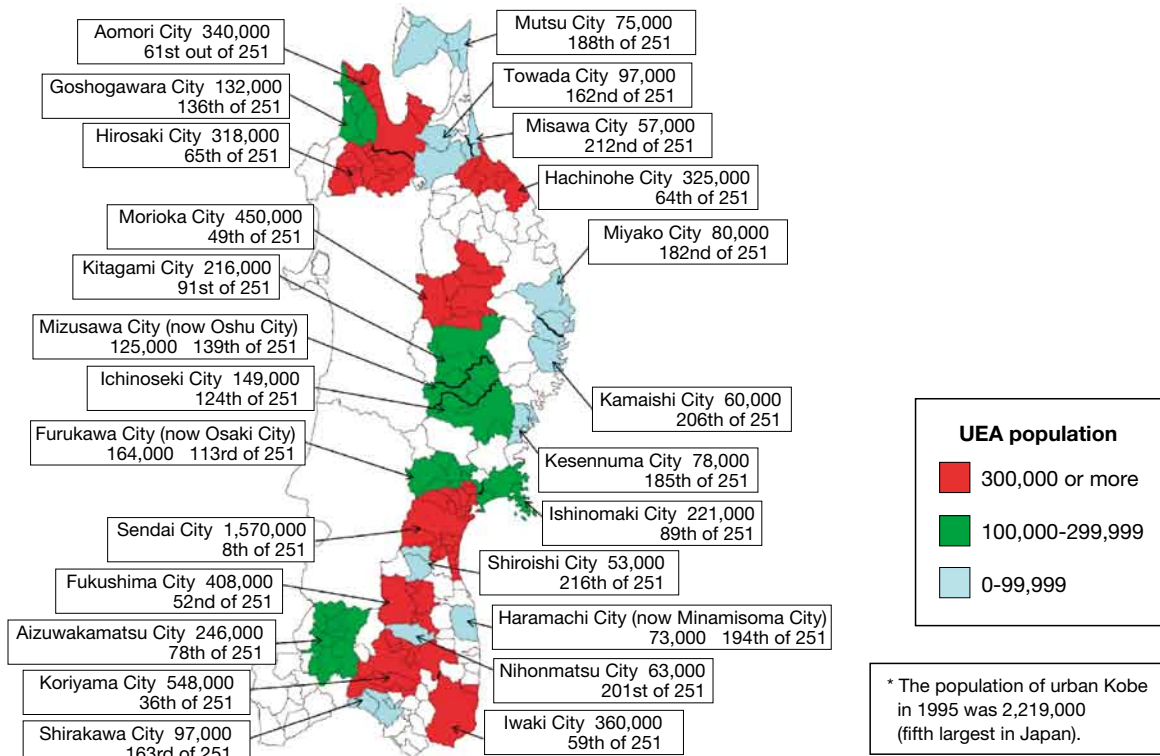
Fig. 1-2-3 shows the urban employment areas (UEA)<sup>12)</sup> of the prefectures of Aomori, Iwate, Miyagi, and Fukushima. As this makes apparent, small UEAs of 60,000~80,000 persons, as in Miyako, Kamaishi, Kesenuma, and

Minamisoma, are to be found scattered across the tsunami-affected regions. Both economically and residentially, it can be seen that the affected regions do not form a part of major urban areas.

12) These consist largely of (1) densely inhabited districts with a population of at least 10,000 and (2) areas where the commuting rate (number of commuters / number of employed persons) from neighboring municipalities to a central municipality is 10% or more. They represent commuting areas spanning more than one municipality, and there are 251 such UEAs in Japan as a whole. See Appended Note 1-2-1.

**Fig. 1-2-3 Urban employment areas in the prefectures of Aomori, Iwate, Miyagi, and Fukushima (2005)**

Economically and residentially separate small-scale urban employment areas (UEA) are scattered throughout the tsunami-affected regions.



Source: Compiled by the SME Agency from the Urban Employment Area website.

Note: These consist largely of (1) densely inhabited districts with a population of at least 10,000 and (2) areas where the commuting rate (number of commuters / number of employed) from neighboring municipalities to a central municipality is 10% or more. They represent commuting areas spanning more than one municipality, and there are 251 such UEAs in Japan as a whole.

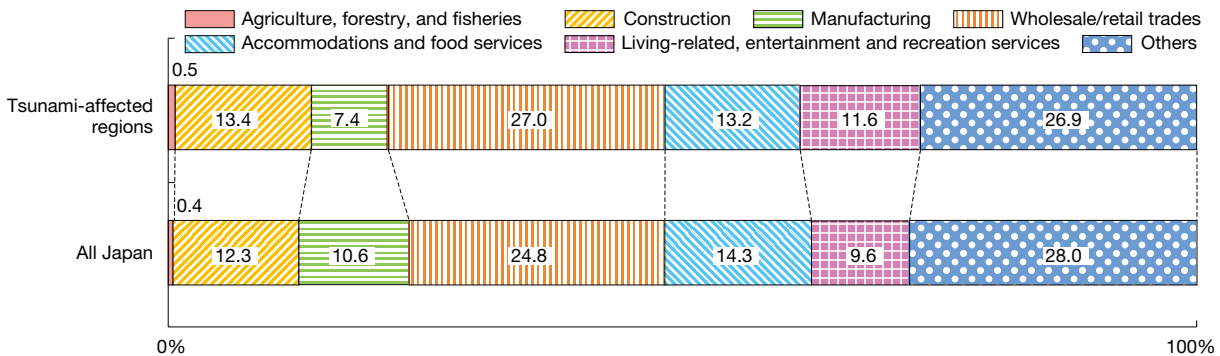
Having seen in Fig. 1-2-1 (1) that there are approximately 80,000 enterprises in the tsunami-affected regions, we consider now how they are characterized in terms of the industries that they and their employees belong to. The comparison of the tsunami-affected regions with Japan as a whole shown in Fig. 1-2-4 reveals the

proportion of enterprises to be low in manufacturing and high in construction, the wholesale and retail trades, life-related services, and amusement and recreation services. In terms of the number of persons employed, however, fisheries, construction, and the wholesale and retail trades account for high proportions of the total.

**Fig. 1-2-4 Breakdown by industry of enterprises and persons employed in tsunami-affected regions**

Compared with Japan as a whole, the proportion of enterprises tends to be low in manufacturing and high in construction, the wholesale and retail trades, life-related services, and entertainment and recreation services in the tsunami-affected regions. Similarly, proportionately more people are employed in fisheries, construction, and the wholesale and retail trades in these regions.

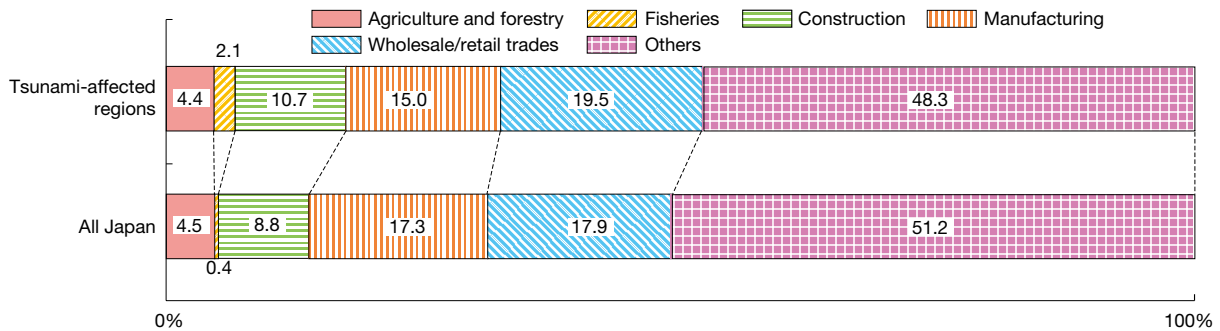
**(1) Breakdown of enterprises by industry**



Source: MIC, 2009 Economic Census: Basic Survey.

Note: Industries are classified according to the Japan Standard Industrial Classification (revised November 2007). "Others" represents the total for the following major categories of industry: mining and quarrying of stone and gravel; electricity, gas, heat supply, and water; information and communications; transport and postal services; finance and insurance; real estate and goods rental and leasing; scientific research, professional and technical services; education and learning support; medical, health care and welfare; compound services; and services (not elsewhere classified).

**(2) Breakdown of persons employed by industry**



Source: MIC, 2005 Population Census.

Note: Industries are classified according to the *Japan Standard Industry Classification* (revised March 2002). "Others" represents the total for the following major categories of industry: mining; electricity, gas, heat supply, and water; information and communications; transport; finance and insurance; real estate; eating and drinking services and accommodations; medical, health care, and welfare; education and learning support; compound services; services (not elsewhere classified), government services; and unclassifiable industries.

\* "Tsunami-affected regions" are the 39 municipalities in the prefectures of Aomori, Iwate, Miyagi, and Fukushima subject to the Disaster Relief Act due to the Great East Japan Earthquake (as of March 24, 2011) that were reported to have suffered flooding caused by the tsunami according to *Approximate Estimates of the Extent of Flooding Caused by the Tsunami (Report No. 5)* published by the Geographical Survey Institute on April 18. The figures for Sendai City are for the wards of Miyagino, Wakabayashi, and Taihaku.

**● Effects of the tsunami on SMEs**

The tsunami-affected regions have suffered huge damage, and their industrial infrastructures (including plants, stores, and ports) and essential local community services have been devastated. Under such circumstances,

many SMEs are facing financial and other challenges, with some reporting that they will be unable to seek out new lives elsewhere if they cannot change or close down their businesses.

**Fig. 1-2-5 Impact of the tsunami on SMEs**

The tsunami caused catastrophic damage to plants, stores, ports, and other industrial infrastructure, along with essential local community services.



Boat swept into the center of Miyako City, Iwate Prefecture



Shopping district buried under rubble in Ishinomaki City, Miyagi Prefecture

**Situation of SMEs**

- People engaged in fisheries tend to be quite old (aged at least around 60), and there are some who are thinking of withdrawing from business once they have repaid their old loans. Many are expected to do so. (Mid-March report from Miyagi Prefecture Association of SMEs)
- Three comparatively large shopping districts in Kamaishi were destroyed by the tsunami. The heart of the Ofunato shopping district was also destroyed. (Late March report from Iwate Prefecture Federation of Shopping Center Promotion Associations)
- Proprietors who have lost their stores are pooling their light trucks in an attempt to set up a simple market. (Late March report from Miyagi Prefecture Association of SMEs)

The findings of societies of commerce and industry in the prefectures of Aomori, Iwate, Miyagi, and Fukushima regarding the state of damage to 13,708 (20%) of their 67,156 members as of May 13, 2011, indicate that 6,142 in coastal areas suffered damage. The buildings and houses of approximately 54% (3,344 enterprises) of these were completely destroyed, 13% (738 enterprises) were partially destroyed, and 29% (1,763 enterprises) were partially damaged. In comparison, 7,566 members

were found to have suffered damage in inland areas: approximately 3% (191 enterprises) suffered complete destruction of houses and buildings, 3% (205 enterprises) suffered partial destruction, and 83% (6,256 enterprises) suffered partial damage. It is clear from these figures that the impact of the tsunami was felt most seriously by members of societies of commerce and industry in coastal regions<sup>13)</sup> (Fig. 1-2-6).

**Fig. 1-2-6 State of damage suffered by member enterprises as ascertained by societies of commerce and industry in the prefectures of Aomori, Iwate, Miyagi, and Fukushima**

The tsunami caused extensive damage to members of societies of commerce and industry in coastal areas.

	Number of member enterprises	Number of enterprises ascertained	Damage to member enterprises					
			Number that suffered damage Percentage of all ascertained					
			Buildings and houses completely destroyed	Buildings and houses partially destroyed	Buildings and houses partially damaged	Equipment and facilities damaged	Indirect damage	No damage
Coastal areas	18,560	6,142	3,344 (54.4%)	783 (12.7%)	1,763 (28.7%)	175 (2.8%)	77 (1.3%)	0 (0.0%)
Inland areas	48,596	7,566	191 (2.5%)	205 (2.7%)	6,256 (82.7%)	468 (6.2%)	446 (5.9%)	0 (0.0%)
Total	67,156	13,708	3,535	988	8,019	643	523	0

Source: Compiled based on reports from the Central Federation of Societies of Commerce and Industry, Japan.

- Notes:
1. Only societies of commerce and industry that reported on damage by May 14, 2011, are included.
  2. It should be noted that societies of commerce and industry as a rule cover the same areas as towns and villages.
  3. Hardly any responses were obtainable from coastal areas of Fukushima Prefecture due to the impact of the nuclear power plant accident.

We look next at the damage situation in the fishing industry (a key industry in the tsunami-affected regions) and in the food processing industries that derive from them. What we find is that fishing port facilities, fishing

vessels, and seafood processing facilities all suffered serious damage, and that the damage was particularly devastating in the prefectures of Iwate, Miyagi, and Fukushima (Fig. 1-2-7).

13) Hardly any responses were obtainable from coastal areas of Fukushima Prefecture due to the impact of the nuclear power plant accident.

**Fig. 1-2-7 State of damage to fishery-related facilities in the prefectures of Aomori, Iwate, Miyagi, and Fukushima**

The March 11 tsunami damaged fishery-related facilities on the Pacific coast and caused devastating damage in the prefectures of Iwate, Miyagi, and Fukushima.

**(1) Fishing port facilities**

	Total number of fishing ports	Number of damaged fishing ports	Reported cost of damage (¥100 million)	Details
Aomori	92	18	41	
Iwate	111	108	1,031	
Miyagi	142	142	4,167	Devastating damage to all fishing ports
Fukushima	10	10	810	Devastating damage to all fishing ports

**(2) Fishing vessels**

	Number of vessels insured under fishing vessel insurance	Number of damaged fishing vessels	Reported cost of damage (¥100 million)	Details
Aomori	6,990	617	113	
Iwate	10,522	Devastating damage	114	5,726 vessels were reported as damaged or destroyed in five municipalities
Miyagi	9,717	Devastating damage	1,052	12,011 of 13,570 registered fishing vessels were reported as damaged or destroyed in Miyagi.
Fukushima	1,068	873	Under investigation	

**(3) Seafood processing facilities**

	Number of seafood processing plants	Principal damage			Details
		Completely destroyed	Partially destroyed	Flooded	
Aomori	119	4	14	39	Damage in Hachinohe district
Iwate	178	59	6	—	Bulk of facilities swept away, damaged, or destroyed
Miyagi	439	323	17	38	Devastating damage to majority of facilities
Fukushima	135	—	—	—	Details not known

Source: Compiled by the SME Agency from Ministry of Agriculture, Forestry and Fisheries (MAFF), *The Damages caused by the Great East Japan Earthquake and Actions taken by Ministry of Agriculture, Forestry and Fisheries* (June 1, 2011).

- Notes:
1. Damage is as of 17:00 on May 31, 2011. The number of seafood processing plants is according to MAFF, *2008 Census of Fisheries*. Publicly available data on seafood processing plants in Aomori Prefecture concerns only those located on the Pacific coast.
  2. Figures on fishing ports and fishing vessels are based on reports from the prefectures concerned. The number of seafood processing facilities affected was determined from interviews with fishery processing associations.
  3. Only facilities on which reports have been received at present are included. The damage is therefore expected to turn out to be considerably higher.
  4. The tsunami also caused tremendous damage to other facilities, including oil depots, fresh seafood storage facilities, and fishery storage facilities. Details of damage to these facilities are presently under investigation.

To summarize this section, the tsunami caused devastating damage to coastal areas and the small UEAs scattered across them, resulting in the loss in some areas of industrial and living infrastructure. The impact on

key industries, such as the fishery industry and the food processing industries derived from it, was also serious. Moving on, we examine in Section 2 the effects of the earthquake.

## Section 2 Effects of the earthquake

The March 11 earthquake was distinguished not only by the tsunami examined in the preceding section, but also by the scale of the tremors that it caused. This was felt most severely in Kurihara City, Miyagi Prefecture, where a 7 on the Japan Meteorological Agency scale of seismic intensity was recorded. Even in Sendai City, a 6-upper was observed in some areas, reflecting the wide area affected by strong tremors. The business activities of

SMEs and shopping districts in the quake-affected regions untouched by the tsunami were consequently severely damaged by the destruction of buildings and facilities, and inability to procure raw materials and deliver goods due to the disruption of physical distribution. Below, we analyze the characteristics of the quake-affected regions and the impact of the earthquake on SMEs.



● **Characteristics of the quake-affected regions**

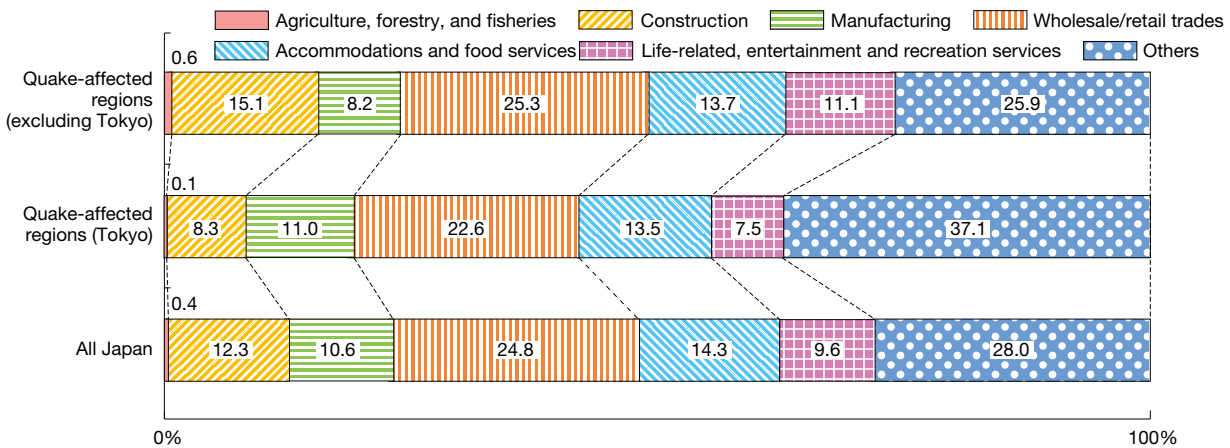
Fig. 1-2-1 (1) shows that there are some 740,000 enterprises in the quake-affected regions. What trends may be observed, then, if we break these enterprises and the people employed by them down by industry? The comparison of six prefectures (excluding Tokyo) with Japan as a whole shown in Fig. 1-2-8 reveals the proportion of enterprises to be low in manufacturing and

high in construction, the wholesale and retail trades, life-related services, and amusement and recreation services. In terms of the number of persons employed, on the other hand, agriculture and forestry, and manufacturing account for high proportions. A comparison of Tokyo with Japan as a whole reveals slightly higher proportions to be accounted for by enterprises in manufacturing, and by persons employed in the wholesale and retail trades.

**Fig. 1-2-8 Breakdown by industry of enterprises and persons employed in the quake-affected regions**

There tend to be proportionately fewer enterprises in manufacturing and more in construction, the wholesale and retail trades, life-related services, and amusement and recreation services in the quake-affected regions (excluding Tokyo) than in Japan as a whole. There also tend to be proportionately more people employed in agriculture and forestry and manufacturing in these regions.

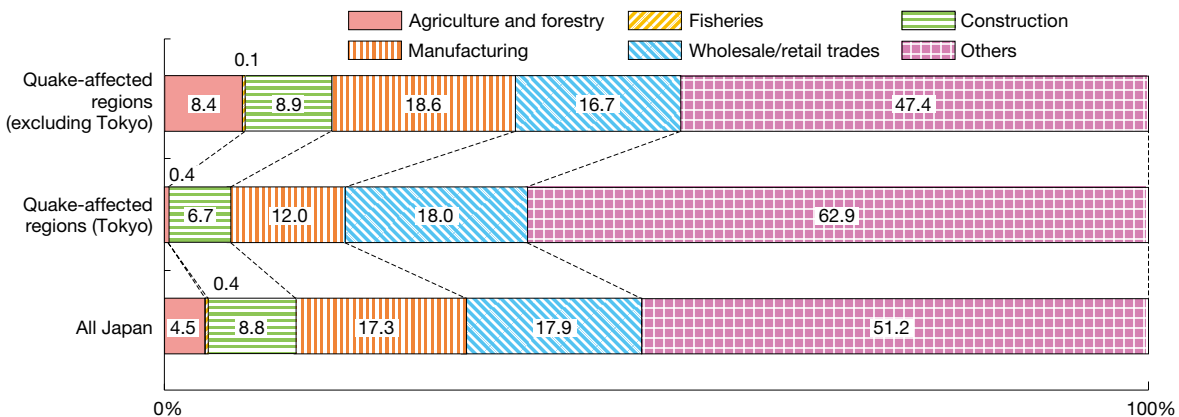
**(1) Breakdown of enterprises by industry**



Source: MIC, 2009 Economic Census: Basic Survey.

Note: Industries are classified according to the Japan Standard Industrial Classification (revised November 2007). "Others" represents the total for the following major categories of industry: mining and quarrying of stone and gravel; electricity, gas, heat supply, and water; information and communications; transport and postal services; finance and insurance; real estate and goods rental and leasing; scientific research, professional and technical services; education and learning support; medical, health care and welfare; compound services; and services (not elsewhere classified).

**(2) Breakdown of persons employed by industry**



Source: MIC, 2005 Population Census.

Note: Industries are classified according to the Japan Standard Industrial Classification (revised March 2002). "Others" represents the total for the following major categories of industry: mining; electricity, gas, heat supply, and water; information and communications; transport; finance and insurance; real estate; eating and drinking services and accommodations; medical, health care, and welfare; education and learning support; compound services; services (not elsewhere classified); government services; and unclassifiable industries.

\* Figures for the "Quake-affected regions" are for the Aoba and Izumi wards of Sendai City and municipalities subject to the Disaster Relief Act due to the Great East Japan Earthquake (as of March 24, 2011) excluding the 39 municipalities in the prefectures of Aomori, Iwate, Miyagi, and Fukushima that suffered flooding caused by the tsunami according to *Approximate Estimates of the Extent of Flooding Caused by the Tsunami (Report No. 5)* published by the Geographical Survey Institute on April 18.

### ● Effects of the earthquake on SMEs

We consider next what damage was suffered in the quake-affected regions. The powerful tremor caused by the earthquake seriously affected the business activities of SMEs and shopping districts due, among other things, to damage and destruction of buildings and facilities, liquefaction, inability to have facilities maintained and inspected due to a shortage of the relevant specialists, and inability to procure raw materials and deliver goods due

to the disruption of physical distribution. The electronic parts, devices and electronic circuits manufacturing industry and transport equipment manufacturing industry have also experienced disruption to production owing to frequent and powerful aftershocks. This is partly due to the time consuming nature of making adjustments to the machine tools used for precision machining in these industries.

### Fig. 1-2-9 Effects of the earthquake on SMEs

The powerful tremor caused by the earthquake seriously affected the business activities of SMEs and shopping districts due, among other things, to damage and destruction of buildings and facilities, liquefaction, inability to have facilities maintained and inspected due to a shortage of relevant specialists, and inability to procure raw materials and deliver goods due to disruption of physical distribution.



Factory partially destroyed by the quake in Sukagawa City, Fukushima Prefecture



Sawmill affected by liquefaction in Katori City, Chiba Prefecture

#### Situation of SMEs

- Plants in Sendai City shut down due to power outages. Equipment was also knocked out of position. (Mid-March report from plastic molding business in Ota City, Tokyo)
- Entire shopping districts have been affected by stores being able to open but having nothing to sell due to stock shortages. (Late March report from staff dispatched to affected area in Sendai City, Miyagi Prefecture)
- There are numerous reports of damage including road buckling and subsidence caused by liquefaction and the collapse of seawalls in an industrial estate in the northern coastal region. Some areas are also without water supplies. (Late March report from Chiba Prefectural Government)

The earthquake not only generated a tsunami that caused such devastating damage to destroy communities on the Pacific coast, but also caused various damage in regions untouched by the tsunami, including the destruction of buildings and facilities due to the earthquake itself and the liquefaction that it caused, and the impact on obtaining and

supplying raw materials, products, and goods due to the disruption of physical distribution. Coping flexibly with these varied forms of damage and providing appropriate support suited to enterprises' needs<sup>14)</sup> will be crucial to early recovery.

14) See Column 1-2-1.

## Column 1-2-1 Support to SMEs affected by the earthquake and tsunami

As seen in Sections 1 and 2, SMEs in each area suffered a great impact from the recent disaster, starting with the earthquake and tsunami. To date, the Japanese government has responded with large expansions of financial support and employment support programs (Column Figure 1-2-1 (1)).

### Column Fig. 1-2-1(1) Support to SMEs affected by the earthquake and tsunami (1)

To date, the Japanese government has responded with large expansions of financial support and employment support programs.

#### Financial support

- (1) Japan Finance Corporation and Shoko Chukin Bank have established the Great East Japan Earthquake Recovery Special Loan program with a separate credit line, extended grace and repayment periods, and reduced interest rates. This includes de facto zero-interest loans to SMEs whose offices were completely destroyed or washed away, by subsidizing all interest payments.
- (2) Separate credit lines and reduced interest rates are also being provided on the government's *marukei yushi* small-scale business improvement loans to small-scale businesses.
- (3) Credit guarantee corporations have established the Great East Japan Earthquake Recovery Emergency Guarantee program, with separate limits from safety net guarantees and disaster-related guarantees.

#### Employment support

- (1) Special measures have been implemented so that employees forced to take leaves at workplaces that suspend operations from disaster damages are eligible to receive unemployment benefits, even if they are still employed.
- (2) In employment adjustment subsidies, the government is subsidizing two-thirds (four-fifths at SMEs) of the leave allowances paid at businesses forced to cut back operations from the economic effects of the earthquake disaster and placing employees on leave to maintain employment.
- (3) The government is holding job fairs for new graduates in the disaster regions and publicizing a list of SMEs positively hiring those graduates through participation in a support project.

In addition to the above financial support and employment support measures, the government is also advancing assistance projects for establishment of temporary stores and factories, support of groups of companies that are the core of local economies, assistance for the rebuilding of local shopping districts, and provision of reconstruction advice to achieve reconstruction as soon as possible (Column Figure 1-2-1 (2)).

### Column Fig. 1-2-1(2) Support to SMEs affected by the earthquake and tsunami (2)

In addition to financial support and employment support measures, the government is also advancing assistance projects for establishment of temporary stores and factories, support of groups of companies that are the core of local economies, assistance for the rebuilding of local shopping districts, and provision of reconstruction advice.

#### Establishment of temporary stores and factories

The Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) has arranged temporary stores and factories and is leasing them to SMEs free of charge via municipal government bodies.

#### Support of groups of companies that are the core of local economies

Intensive application of policy resources to groups of companies that are the core of local economies, focusing on industrial networks and the ability to absorb employment, centered on the following:

- I. Industrial clusters that are important to the community from the viewpoint of the expansion of economic transactions among local businesses
  - II. Core companies that are important to the community from the viewpoint of employment scale, and their associated companies
  - III. Groups of companies that supply essential components to leading Japanese industries or which otherwise form important supply chains for the regional or national economy
  - IV. Local central shopping districts which provide essential functions to local communities
- (1) Introduced measures (¥15.5 billion in the FY2011 first supplementary budget) whereby the national government provides a one-half subsidy and the prefecture provides a one-fourth subsidy for the equipment and facilities restoration and preparation when a group comprising multiple SMEs prepares a restoration plan which is certified by the prefecture.
  - (2) Also established a lending system with highly preferential terms for groups of companies using these subsidies, which includes zero interest, repayment periods of up to 20 years, and grace periods of up to five years.

#### Assistance for the rebuilding of local shopping districts

- (1) Subsidies for expenses incurred in the repair of facilities that suffered damages and the removal of debris
- (2) Subsidies for expenses incurred in the removal of damaged arcades and other obstructions, the repair of facilities that suffered major damages, and other restoration works requiring a substantial period of time

#### Provision of reconstruction advice

SMRJ has established assistance bases in the disaster areas, and dispatched specialists to respond to inquiries from SMEs by providing advice on management, town building, facilities works and other issues.

In this section, we have examined the characteristics of the regions affected by the tsunami and earthquake, and the impact of the tsunami and earthquake on SMEs. For its part, the Japanese government will continue to

make every effort to support SMEs to ensure the earliest possible recovery of the affected regions.

In Section 3, we continue by examining the effects of the nuclear power plant accident caused by the earthquake.

## Column 1-2-2 The importance of preparing a business continuity plan (BCP)

The companies which suffered damages in the recent earthquake and tsunami included some which realized rapid recovery because they had prepared a business continuity plan (BCP) in case of emergency. This reconfirmed the importance of preparing a BCP during normal times, deciding the business activities methods and means to minimize damage when disasters do occur, and actively maintaining cooperation among companies. In this context, the government is continuing initiatives urging SMEs to prepare BCPs.

### Column Fig. 1-2-2 The importance of preparing a BCP for SMEs

The recent disaster reconfirmed the importance of preparing a BCP during normal times and deciding the business activities methods and means to minimize damage when disasters do occur

#### • Business continuity plan (BCP)

A business continuity plan (BCP) is a plan that specifies the activities to be implemented during normal times and the methods and means for business continuity during emergencies to minimize the damage to business assets and to continue or quickly restore core business operations during natural disasters, major fires, terrorist attacks and other emergencies.

#### Efforts to promote preparation of a BCP by SMEs

- The SME Agency has prepared and published SME Business Continuity Plan Preparation Guidelines<sup>1</sup> to promote the spread of BCPs among SMEs.
- The agency has also compiled Points for SME Business Continuity Plans from Disaster Response Case Studies<sup>2</sup> to summarize key points for the preparation of a BCP and present disaster-response case studies from various industries.

Notes: 1. For details, see the following SME Agency, METI website (Japanese only):  
<http://www.chusho.meti.go.jp/bcp/index.html>  
 2. For details, see the following SME Agency, METI website (Japanese only):  
<http://www.chusho.meti.go.jp/keiei/antei/download/110531Bcp-Reserch.pdf>.

## Case 1-2-1

### A company that recovered quickly because they had prepared a BCP

Suzuki Kogyo Co. Ltd., based in Sendai City, Miyagi Prefecture, with 67 employees and capital of ¥60 million, is engaged in collection and transport of industrial waste, intermediate processing for recycling, etc., cleaning of water supply and sewage facilities, and related businesses.

In the Great East Japan Earthquake and tsunami, the heavy machinery, vehicles, truck scales and other main equipment used at the company's intermediate processing plant and office were almost all washed away, the walls of the buildings were partially destroyed, the incinerator and water processing facilities inside the plant were buried in sludge and rubble, and the land at the on-site waste storage area subsided.

Suzuki Kogyo began considering and drafting a business continuity plan (BCP) in August 2008 to prepare for emergencies, and instituted the first version of its BCP from September 2009. The company has held in-house training sessions with the participation of outside experts, and conducted BCP simulations and drills. As a result of this practice, the company was able to smoothly evacuate personnel from the processing plant and rapidly confirm the safety of all employees, including employees working at customer sites.

Suzuki Kogyo was also able to quickly contact contractors to make repairs because the company had obtained satellite telephones for emergency communications under the BCP. The contractors began working at the plant to confirm the scope of the required repairs from the very next day. The satellite phones were also very useful for contacting customers and government authorities. With these phones, Suzuki Kogyo was able to participate in municipal restoration works and customer restoration works from the day after the earthquake. Suzuki Kogyo arranged for the smooth processing of waste products until the company's processing plant was restored through cooperation with a waste processing business outside the prefecture.

The headquarters telephones and personal computers were restored on March 16. Suzuki Kogyo resumed its industrial waste collection and transport and its cleaning and recycling works about one week after the earthquake, and its other intermediate processing works within about one month, quickly realizing a complete recovery.

Suzuki Kogyo was able to rapidly recover from the earthquake disaster because they had prepared a BCP. While recognizing the effects achieved by the plan, the company is now urgently revising its BCP to prepare a more precise version based on the lessons learned from the disaster.



BCP drill by outside experts at Suzuki Kogyo's in-house training session

## Column 1-2-3 SMEs working hard despite direct earthquake and tsunami damage

Many SMEs have found it difficult to continue their operations due to the impact of the earthquake and tsunami. Yet there are SMEs working hard despite suffering major damages, including a company strongly committed to reviving operations locally, a company that used creativity to resume local goods production, a supermarket supporting consumption by local residents and contributing to the revitalization of local companies, a company positively hiring high school graduates from the disaster area whose tentative employment agreements were cancelled, and a financial organ helping SMEs to keep operating.

## Case 1-2-2

### A company strongly committed to reviving operations locally

Yamanishi Co., Ltd. builds various types of ships, mostly mid-sized vessels, in Ishinomaki City, Miyagi Prefecture with 194 employees and capital of ¥100 million. In recent years, the company has stepped up its capacity to respond to international demand. In 2008, they installed a 150-ton crane—one of the largest in the Tohoku region—and expanded facilities to build ships up to the 24,000 ton class. The earthquake disaster flooded the first floor of the company's factory buildings, damaging many of the production facilities. Moreover, two large cargo vessels that were under construction were washed away. The land under the quay may have subsided, and the seawall needs to be repaired. Yamanishi is forced to suspend production for the time being. They are earnestly advancing restoration works toward resuming factory operations in the spring of 2012. Several domestic and foreign customers have asked Yamanishi to make their ships the first the company builds when it resumes operations.

Yamanishi president Hidehiko Maeda says, "We have managed our company taking pride in our roots in the fishing center Ishinomaki City, as one of the leading local employers. If business gets back to normal, we can make profits and expand employment opportunities. We are determined to revive here in Ishinomaki to make use of the shipbuilding technologies, skills and human resources we have fostered over 90 years."

### Case 1-2-3

#### A company using creativity to resume local sake production

Otokoyama Honten Co., Ltd. is a long-established sake brewery in Kesennuma City, Miyagi Prefecture. The company was founded in 1912, and has 17 employees and capital of ¥15 million. The company headquarters, a Western-style structure from the early 1930s, is a registered national tangible cultural asset some 80 years old. The tsunami destroyed the first and second floors of the building, leaving only the third floor, and electricity, water and gas were all cut off. With these severe damages, the employees were at a complete loss right after the earthquake. Fortunately, the sake mash tanks required for brewing the local sake were unharmed.

By using well water to cool the tanks, running machinery using generators and devising other creative means to press the mash, Otokoyama Honten resumed brewing sake and filling orders from throughout Japan from late March.

### Case 1-2-4

#### A supermarket supporting consumption by local residents and contributing to the revitalization of local companies

Maiya Co., Ltd. is a supermarket chain based in Ofunato City, Iwate Prefecture with 700 employees and capital of ¥96 million. The company mostly operates supermarkets in the coastal area of Iwate Prefecture.

Six of the company's 16 supermarkets were damaged by the tsunami. In Rikuzentakata City and other locations where Maiya has many stores and there are hardly any competing supermarkets, it would be impossible for people to live if Maiya suspended its operations. So Maiya set up shop from that evening in the parking lots of those stores that were not damaged, and resumed business from 6:00 a.m. the next morning. The company also opened many temporary outlets in areas where Maiya's supermarkets suffered damages, and sold items in even sums of ¥50 and ¥100 yen, without cash registers.

Even though Maiya itself suffered damages, the company is positively purchasing from local SMEs, especially local agricultural and fishery products whose reputation is being damaged by rumors. In addition, Maiya provided sales venues to Saito Seika K.K., which produces and sells the renowned local confectionary *kamome no tamago* (seagull's egg). Saito Seika, which has 169 employees and capital of ¥50 million, resumed production soon after the earthquake. The two companies are working together to contribute to the early recovery of the local community.

Maiya president Haruo Maiya says, "The local community truly shares the same fate. It was our duty as a matter of course to protect the lifeline of the community in the recent disaster."



Saito Seika sales staff at a Maiya supermarket that resumed operations

### Case 1-2-5

#### A company positively hiring high school graduates from the disaster area whose tentative employment agreements were cancelled

Daiki Suisan Co., Ltd. is a company engaged in the processing and sale of fresh fish and fishery products and the operation of conveyor belt sushi restaurants based in Sakai City, Osaka Prefecture with 113 employees and capital of ¥60 million. When the company heard that some graduating seniors in the disaster area were having their tentative employment agreements cancelled, they contacted Koyo High School and Kesennuma Fisheries High School in Kesennuma City via the government's Hello Work employment service center right after the earthquake, with an offer to hire up to 10 graduates. The company plans to subsidize about 80% of their rent, and the hiring process is moving forward.

Daiki Suisan president Yasunobu Saeki explains his thoughts. He plans to continue hiring high school graduates from the disaster areas in the future. "I think learning how the fish sent from their home towns reach consumers by working in the retail and restaurant businesses will prove useful to these new graduates in many ways when they return to their home towns and gain employment in the fisheries industry. More than anything, deepening exchange between the prefectures in the Sanriku region and the Kinki region, which is a major consumption area, will make the distance feel shorter and support fish prices by expanding sales channels, upholding recovery over the long term."

**Case  
1-2-6**

**A financial organ helping SMEs to keep operating**

The Bank of Iwate, Ltd., with headquarters in Morioka City, Iwate Prefecture, suffered damages in the disaster including damaged and destroyed buildings, mostly at branches in the Sanriku coastal area. So the bank had to suspend operations at some branches.

From right after the earthquake, the bank opened temporary branches and consultation windows to respond to SME concerns about cash flow, maintaining employment, and financing for store and factory reconstruction.

The bank established a Recovery and Revival Support Team specializing in reconstruction support, and worked to delve deeper and swiftly resolve the diverse and difficult issues facing SME managers.

The Bank of Iwate, which has grown together with local SMEs, gathered its forces to provide reconstruction support to the community with the belief that “It is particularly important just now, right after the unprecedented earthquake disaster, to maintain a stance of resolving problems together with business managers.”

**Section 3 Effects of the nuclear power plant accident**

In addition to the effects of the earthquake and tsunami examined in the preceding sections, SMEs have also been affected by the subsequent nuclear power plant accident. This has had a very severe impact, making it difficult for some to remain in business and making projections about the future impossible. Goods produced near nuclear

evacuation areas have experienced weak demand and loss of customers, and in some cases overseas manufacturers have demanded that goods for export be screened for radiation. In this section, we analyze the characteristics of the nuclear evacuation areas and the effects of the nuclear power plant accident on SMEs.

● **Characteristics of the nuclear evacuation areas**

As shown in Fig. 1-2-1 (1), there are approximately 8,000 enterprises in the nuclear evacuation areas. Let us therefore consider the features of these enterprises and the people that they employ in terms of their industrial makeup.

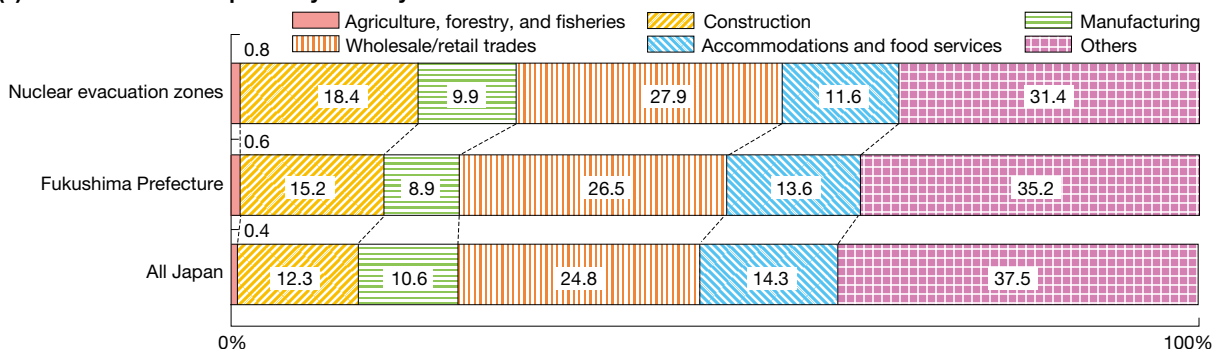
From the comparison with Japan as a whole, and Fukushima Prefecture shown in Fig. 1-2-10, it is evident

that construction, the wholesale and retail trades, and agriculture, forestry and fisheries make up higher proportions of enterprises, and agriculture, forestry, and fisheries, construction, electricity, gas, heat supply, and water account for higher proportions of persons employed in the nuclear evacuation areas.

**Fig. 1-2-10 Breakdown by industry of enterprises and persons employed in the nuclear evacuation zones**

Industries such as construction, the wholesale and retail trades, and agriculture, forestry, and fisheries tend to be more common in the nuclear evacuation zones. There also tend to be proportionately more people employed in agriculture, forestry, and fisheries, construction, electricity, gas, heat supply, and water.

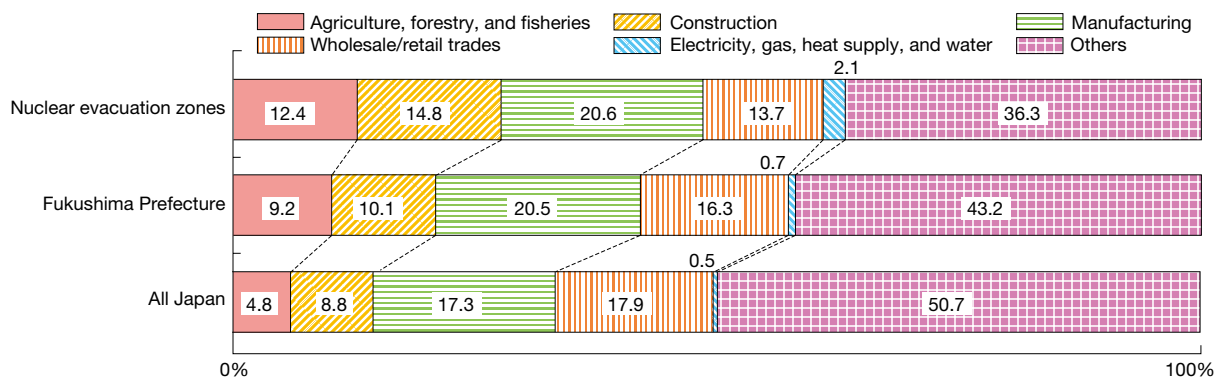
**(1) Breakdown of enterprises by industry**



Source: MIC, 2009 Economic Census: Basic Survey.

Note: Industries are classified according to the Japan Standard Industry Classification (revised November 2007). “Others” represents the total for the following major categories of industry: mining and quarrying of stone and gravel; electricity, gas, heat supply, and water; information and communications; transport and postal services; finance and insurance; real estate and goods rental and leasing; scientific research, professional and technical services; education and learning support; medical, health care and welfare; compound services; and services (not elsewhere classified).

(2) Breakdown of persons employed by industry



Source: MIC, 2005 Population Census.

Note: Industries are classified according to the *Japan Standard Industrial Classification* (revised March 2002). "Others" represents the total for the following major categories of industry: mining; information and communications; transport; finance and insurance; real estate; eating and drinking services and accommodations; medical, health care, and welfare; education and learning support; compound services; services (not elsewhere classified); government services; and unclassifiable industries.

\* The municipalities containing nuclear evacuation zones consist of the following in their entirety: Tamura City, Minamisoma City, Kawamata Town, Hirono Town, Naraha Town, Tomioka Town, Kawauchi Village, Okuma Town, Futaba Town, Namie Town, Katsurao Village, and Iitate Village.

The nuclear evacuation areas are the locations of high proportions of enterprises in certain industries, including manufacturers of chemical parts, transport equipment parts, and electronic equipment parts. Business activity remains difficult for these enterprises, and this appears to be having an impact all along the supply chains in industries such as automobiles and electronics.

● Effects of the nuclear power plant accident on SMEs

How have SMEs in the nuclear evacuation areas been affected?

Fig. 1-2-11 shows that enterprises in these areas face

extremely severe circumstances. They are having to bear heavy personnel and fixed costs despite the severe obstacles to business continuity, and face a cloudy future. Some are even considering making use of alternate production elsewhere or relocating to other regions.

Districts outside the nuclear evacuation areas have also been affected. Goods made nearby are experiencing slack demand and loss of customers. The financial damage caused by harmful rumors has also been widespread, both within Japan and abroad, leading to a rash of hotel reservation cancellations and demands from business partners for products to be inspected and confirmed to be safe.

Fig. 1-2-11 Impact on enterprises in areas surrounding nuclear power plants

Enterprises in the nuclear evacuation zones face extremely severe circumstances. They are having to bear heavy personnel and fixed costs despite the severe obstacles to business continuity, and face a cloudy future. Some are even considering making use of alternate production elsewhere or relocating to other regions. Districts outside the nuclear evacuation zones have also been affected. Goods made nearby are experiencing slack demand and loss of customers. The financial damage caused by harmful rumors has also been widespread, both within Japan and abroad, leading to a rash of hotel reservation cancellations and demands from business partners for products to be inspected and confirmed to be safe.



Situation of SMEs

1. Nuclear evacuation zones

- Businesses engaged in production in towns with nuclear power plants have been evacuated and have no means of generating revenue. Facing debts from the past to pay off, the future looks bleak. (Early April report from Fukushima Prefecture Association of SMEs)
- Employees have been evacuated away from the area and to evacuation sites. Despite not being able to produce anything, however, enterprises are having to bear personnel and fixed costs and are facing severe circumstances. (Late March report from chemical product manufacturer in Namie Town, Fukushima Prefecture)
- Employees have been transferred to a plant outside the area and production has commenced. The company is prepared to have to make do with alternate production for around six months to a year. As employees depend on it for their livelihoods, the company wants to recommence production at its plant in Futaba. If the restrictions on entry become protracted, however, it will have to consider relocating its plant. (Late March from iron forging company in Futaba Town, Fukushima Prefecture)

2. Other areas in Fukushima Prefecture

- Distributors are saying that food products made in Fukushima Prefecture are not needed. Even rice is apparently not required. (Late March report from Fukushima Prefecture Association of SMEs)
- Hotels in the city are all experiencing cancellations and having to lay off large numbers of employees. (Mid-April report from Fukushima Prefecture Association of SMEs)
- Overseas suppliers are demanding that deliveries be moved forward and that radiation safety checks be carried out. (Mid-March report from industrial control device manufacturer in Ota City, Tokyo)



In this section, we have shown that the nuclear evacuation areas are home to higher proportions of enterprises and persons employed in construction than in Japan as a whole and Fukushima Prefecture. We have also seen that these include SMEs whose fortunes impact on supply chains across the country. As has been demonstrated, enterprises in the evacuation areas around

nuclear power plants have found it difficult to engage in business activity and the way ahead is uncertain. Goods made around these areas are experiencing slack demand and loss of customers, necessitating a different response from that employed to cope with the damage caused by the tsunami and earthquake. Providing special support to the affected SMEs is therefore crucial.<sup>15)</sup>

## Column 1-2-4 Special support for SMEs affected by the nuclear power plant accident

As seen in Section 3, the nuclear power plant accident is affecting SMEs not only within the evacuation areas but throughout the country. In response, the government is providing special financial support, employment support, management support, and support for responding to damage caused by rumors, as well as distributing initial compensation payments.

### Column Fig. 1-2-4 Special Support for SMEs affected by the nuclear power plant accident

The government is providing special financial support, employment support, management support, and support for responding to damage caused by rumors, as well as distributing initial compensation payments.

#### Special financial support

SMRJ is using a sophisticated financing scheme to provide zero-interest uncollateralized loans of up to 20 years to SMEs forced to move business establishments located inside the restricted area, the deliberate evacuation area or the emergency evacuation-prepared area, for the funds required to maintain business at new locations inside Fukushima Prefecture.

\* SMEs can also make use of the Great East Japan Earthquake Recovery Special Loan program provided by Japan Finance Corporation and Shoko Chukin Bank (de facto zero-interest loans with interest subsidies), and the Great East Japan Earthquake Recovery Emergency Guarantee program from credit guarantee corporations.

#### Employment support and management support

Efforts implemented inside Fukushima Prefecture include employment creation under the Priority Fields Employment Generation Project, requests from the Ministry of Economy, Trade and Industry, the Ministry of Health, Labour and Welfare, and Fukushima Prefecture to business circles for local employment, the creation of employment opportunities by SME associations, and support for companies inside Fukushima Prefecture to keep operating.

#### Support for responding to damage caused by rumors

Subsidies for the testing expenses when exporters requesting product radiation tests for product exports from Japan have products tested at designated testing laboratories (approx. ¥700 million in the FY2011 first supplementary budget; subsidy rate of nine-tenths for SMEs and one-half for large enterprises).

#### Distribution of initial compensation payments to SMEs affected by the nuclear power plant accident

- (1) Subject losses for initial compensation payments: Business losses suffered by SMEs in the evacuation areas<sup>1</sup>
- (2) Amount of initial compensation payments: One-half of equivalent gross profits<sup>2</sup> from March 12 through May 31, 2011 (maximum of ¥2.5 million)
- (3) Required documents:
  - 1) Documents verifying gross profits<sup>3</sup>
  - 2) Evidence that the company was conducting business in the evacuation areas as of March 12, 2011
- (4) Claims receipt: From June 1, 2011

- Notes:
1. Evacuation areas refer to the evacuation areas specified in “3. Regarding Damages Related to Government Evacuation Orders” in the First Guidelines issued by the MEXT Nuclear Power Plant Related Damages Dispute Resolution Panel.
  2. Gross profits (gross sales minus the cost of goods sold) are calculated based on past business performance.
  3. Initial compensation payments of ¥200,000 may be distributed without documents verifying gross profits, as long as documents verifying business status are submitted.

15) See Column 1-2-4.

### Case 1-2-7

#### A company which resumed gas supply right after the nuclear power plant accident

Soma Gas Co., Ltd., based in Minamisoma City, Fukushima Prefecture, with the workforce of 30 and capital of ¥96 million, is engaged in the city gas, LP gas, gas station and other energy businesses, together with its group companies.

Following the nuclear power plant accident, the company's supply area fell inside the designated "indoor evacuation area" where residents were instructed to remain indoors. Many local residents and employees evacuated, and the transport of city gas raw materials and petroleum products was delayed. Soma Gas resumed operations from right after the earthquake with the help of citizen volunteers, to meet the needs of 10,000 households using city gas.

The company's supply area is presently designated as an "emergency evacuation-prepared area." While it is still difficult to project sales, president Katsuyuki Shibusa says, "Soma Gas will continue operating as long as we have customers, with the firm conviction that the energy business is an important part of the social infrastructure."

### Case 1-2-8

#### A company that quickly repaired production lines and resumed full operations

Arena Co., Ltd. is engaged in the assembly manufacturing of electronic equipment components in Soma City, Fukushima Prefecture with 200 employees and capital of ¥10 million. Arena is proud of its world-class performance in the technology of mounting chip components onto circuit boards. This technology is used in products made by the world's leading cell phone manufacturers. Arena's components are used in about 20% of the world's cell phones.

The suspension of manufacturing operations at Arena has a great impact on its customers. So immediately after the earthquake, Arena promptly established a disaster response headquarters; confirmed the safety of employees and their families and the extent of damages to their homes; set up an employee aid system; and launched a project team to restore plant operations. The company held daily meetings to report the current status and share information.

The Arena disaster response headquarters asked the Soma municipal authorities for assistance to employees who could not report to work because of the gasoline shortage, or because they lost their homes in the earthquake and tsunami, and made every effort to improve living conditions so employees could return to work.

Engineers from traders and machinery manufacturers from the Nagoya area provided help, and worked together with employees day after day to repair and restore production facilities, which resumed full operations on March 22. Arena is located just within 50km of the Fukushima Daiichi Nuclear Power Plant. President Shinya Takayama says, "I hope the authorities issue a radiation safety declaration soon."



Factory conditions after the disaster (left) and after resuming operations (right)

## Section 4 Effects of power supply constraints

The Great East Japan Earthquake caused damage to TEPCO's nuclear and thermal power plants and power transmission facilities, leaving it with a supply capacity of just 31 million kilowatts, compared with peak average power demand on a March weekday of 47 million kilowatts.

From March 14 to 28, therefore, rolling blackouts were imposed. In this section, we analyze the characteristics of the regions affected by the rolling blackouts, and the impact of power supply constraints on SMEs.

### ● Characteristics of regions affected by rolling blackouts

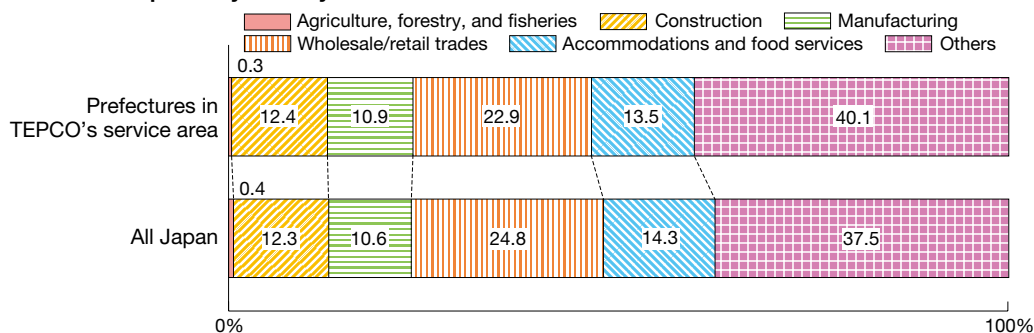
As Fig. 1-2-1 (1) illustrates, the rolling blackouts were imposed on regions containing some 1.45 million enterprises, including the Tokyo metropolitan area. Fig. 1-2-12 compares the industrial makeups of enterprises

and persons employed by them in TEPCO's service area and Japan as a whole. They do not differ markedly from Japan as a whole, with proportionately large numbers of both enterprises and persons employed being found in the wholesale and retail trades.

**Fig. 1-2-12 Breakdown by industry of enterprises and persons employed in prefectures in TEPCO's service area**

In descending order, the wholesale and retail trades, accommodations, food services, construction, and manufacturing account for high proportions of enterprises, and the wholesale and retail trades and manufacturing for high proportions of persons employed.

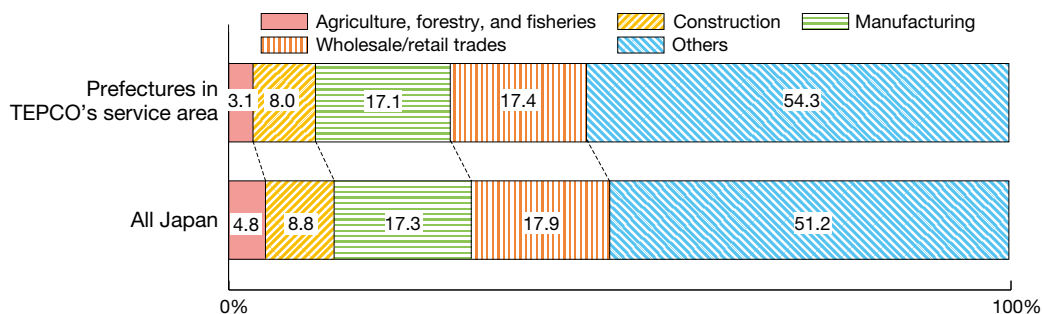
**(1) Breakdown of enterprises by industry**



Source: MIC, 2009 Economic Census: Basic Survey.

Note: Industries are classified according to the Japan Standard Industry Classification (revised November 2007). "Others" represents the total for the following major categories of industry: mining and quarrying of stone and gravel; electricity, gas, heat supply, and water; information and communications; transport and postal services; finance and insurance; real estate and goods rental and leasing; scientific research, professional and technical services; life-related, entertainment and recreation services; education and learning support; medical, health care and welfare; compound services; and services (not elsewhere classified).

**(2) Breakdown of persons employed by industry**



Source: MIC, 2005 Population Census.

Note: Industries are classified according to the Japan Standard Industry Classification (revised March 2002). "Others" represents the total for the following major categories of industry: mining; electricity, gas, heat supply, and water; information and communications; transport; finance and insurance; real estate; eating and drinking services and accommodations; medical, health care, and welfare; education and learning support; compound services; services (not elsewhere classified); government services; and unclassifiable industries.

\* The prefectures in TEPCO's service area are as follows: Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa, Yamanashi, and Shizuoka.

**● Effects of power supply constraints on SMEs**

What has been the impact on SMEs of the rolling blackouts imposed in TEPCO's service area? We tackle this question first by surveying the effects by industry. The effects reported by manufacturers, especially those that depend on continuous operation, included "impedance of production planning," "reduced production level," "forced to revise production arrangements," and "difficulty obtaining parts." The reported effects included "loss of customers due to blackouts" and "deterioration of sales due to having to shorten business hours" in the retail trade and services, "difficulty storing merchandise" in the wholesale trade, and "worsened movement of goods associated with decline in volume of product shipments" in transport. The rolling blackouts can thus be seen to

have had a variety of impacts depending on the industry concerned.

The rolling blackouts also indirectly affected enterprises that, though not located in TEPCO's service area, do business with enterprises that are. Fig. 1-2-13 shows the numbers of enterprises supplied by TEPCO and those doing business with such enterprises that are recorded in Teikoku Databank, Ltd.'s SPECIA Industry Survey and Analysis.<sup>16)</sup> These enterprises account for over 50% of the national total, and particularly large numbers of outside manufacturers and wholesalers do business with enterprises supplied by TEPCO. This gives some indication of the scale of the knock-on effects that the rolling blackouts have had on the entire country.

16) These figures are for enterprises on which the database contains transaction data.

**Fig. 1-2-13 Impact of rolling blackouts on SMEs, enterprises in TEPCO's service area, and outside enterprises doing direct business with them**

Together, enterprises in TEPCO's service area and outside enterprises doing direct business with them make up some 50% of the national total.

#### Situation of SMEs

- As 1,500°C melting furnaces are normally electrically cooled for 12 hours, operating rates fell to around 20% during rolling blackouts. As night operation also becomes necessary when rolling blackouts are imposed, we want to know as soon as possible when they are to occur. (Mid-March report from foundry in Kawaguchi City, Saitama Prefecture)
- When rolling blackouts occur, orders decline as customers go to other suppliers that are unaffected. If the blackouts continue, we could face dire circumstances. (Mid-March report from semiconductor polishing business in Chichibu City, Saitama Prefecture)
- The rolling blackouts mean that meals cannot be prepared, forcing some hotels to turn away guests. Due to the impossibility of engaging in other business, sales and finances have been squeezed (restaurants, barbershops, cram schools, etc.). (Mid-March report from Chiba Prefecture Association of SMEs)

	Number of enterprises in TEPCO's service area (a)	Proportion of enterprises in TEPCO's service area in all enterprises (a) / (c)	Number of enterprises in other regions that do business with enterprises in TEPCO's service area (b)	Proportion of enterprises in other regions that do business with enterprises in TEPCO's service area in all enterprises (b) / (c)	Total number of enterprises (c)
Agriculture, forestry, and fisheries	434	15%	313	11%	2,861
Construction	28,200	36%	4,674	6%	77,829
Manufacturing	27,708	37%	19,936	27%	74,429
Wholesale trade	36,498	39%	17,207	19%	92,403
Retail trade	12,916	29%	3,472	8%	44,280
Services, etc.	53,293	42%	11,295	9%	126,170
<b>Total</b>	<b>159,049</b>	<b>38%</b>	<b>56,897</b>	<b>14%</b>	<b>417,972</b>

Source: Recompiled from Teikoku Databank, *SPECIA Industry Survey and Analysis*.

Note: These figures are for enterprises on which the database contains transaction data.

The rolling blackouts have thus not only had varying impacts depending on industry, but have also impacted on large numbers of SMEs throughout Japan. Although imposition of rolling blackouts has in principle been suspended since April 8, 2011, the ongoing need to limit power demand during the summer has led the government to set a uniform power use reduction target of 15% for large,<sup>17)</sup> small,<sup>18)</sup> and residential customers during peak hours between 09:00 and 20:00 on weekdays from July to September 2011.<sup>19)</sup> It was indicated in *2010 White Paper on Small and Medium Enterprises in Japan* that

SMEs have greater scope for making energy efficiency improvements in comparison with large enterprises, and that they have yet to make significant strides in investing in making energy savings.<sup>20)</sup> It is now required to pursue further energy savings in order to maintain the level of economic activity, while curbing power demand.

In the face of this environment, the Electricity Supply-Demand Emergency Response Headquarters has put together a raft of measures to balance supply and demand during the summer and is helping SMEs to curb their power demand.<sup>21)</sup>

17) Business customers with a contracted demand of at least 500 kilowatts.

18) Business customers with a contracted demand of less than 500 kilowatts.

19) As Tohoku Electric Power Co., Inc. too suffered tremendous damage to its thermal power plants and other facilities located mainly on the Pacific coast and had to shut down its nuclear power plants to ensure safety, the tight balance between power supply and demand is expected to continue.

20) See p. 109 of *2010 White Paper on Small and Medium Enterprises in Japan*.

21) See Column 1-2-5.

## Column 1-2-5 SME measures to restrict summer electricity demand

The METI's Electricity Supply-Demand Emergency Response Headquarters has compiled summer electricity supply-demand measures in anticipation of a shortage of electric power supply this summer. In accordance with this policy, to promote electricity conservation initiatives by SMEs, the headquarters has publicized the "Standard Format of Action Plans for Electricity Saving for Small Customers" by type of business, visited individual businesses to hold explanation meetings, and provided assistance in electricity conservation education and information via the "Simplified Manual for Small and Medium Enterprises to Save Electricity" published by the Tokyo Association of Smaller Entrepreneurs (Tokyo Doyukai). The Japan Chamber of Commerce and Industry, the National Federation of Small Business Associations, the Central Federation of Societies of Commerce and Industry and the National Federation of Shopping Center Promotion Associations have also prepared guidelines for their member companies to use in drafting voluntary action plans for electricity conservation (Column Figure 1-2-5).

### Column Fig. 1-2-5 SME measures to restrict summer electricity demand

Supporting SME initiatives to restrict electricity demand toward the summer

#### Support for restricting summer electricity demand

- (1) Publicized the "Standard Format of Action Plans for Electricity Saving for Small Customers"<sup>1</sup> which presents examples of drafting and implementing electricity conservation action plans by type of business.
  - Example measures at factories  
Turning off production equipment power supplies, preventing idling of rotary machines, strengthening insulation of electric furnaces and electric heating devices, etc.
  - Example measures at wholesale and retail outlets, restaurants, office buildings, etc.  
Reducing the number of light bulbs in fixtures, always turning off lights not in use, setting air conditioners at higher temperatures, limiting areas used, etc.
- (2) Visited individual businesses to hold explanation meetings, provide information and request cooperation regarding the necessity of electricity conservation, approach methods, etc.
- (3) Introduced free energy conservation diagnoses<sup>2</sup>, support for introducing energy conservation equipment, and other SME support systems through the "Simplified Manual for Small and Medium Enterprises to Save Electricity"<sup>3</sup> published by the Tokyo Doyukai.
- (4) The Japan Chamber of Commerce and Industry<sup>4</sup>, the National Federation of Small Business Associations<sup>5</sup>, the Central Federation of Societies of Commerce and Industry<sup>6</sup> and the National Federation of Shopping Center Promotion Associations<sup>7</sup> have also prepared guidelines for their member companies to use in drafting voluntary action plans for electricity conservation.

- Notes:
1. For details, see the following METI website (Japanese only):  
<http://www.meti.go.jp/setsuden/20110513taisaku/04.pdf>
  2. For details, see the following Energy Conservation Center, Japan (ECCJ) website (Japanese only):  
<http://www.eccj.or.jp/shindan/index.html>
  3. For details, see the following Tokyo Doyukai website (Japanese only):  
<http://www.tokyo.doyu.jp/setuden.pdf>
  4. For details, see the following Japan Chamber of Commerce and Industry website (Japanese only):  
<http://www.jcci.or.jp/news/jcci-news/2011/0523100432.html>
  5. For details, see the following National Federation of Small Business Associations website (Japanese only):  
<http://www.chuokai.or.jp/info/setsuden01.pdf>
  6. For details, see the following Central Federation of Societies of Commerce and Industry website (Japanese only):  
[http://www.shokokai.or.jp/top/html/kigyosai/2\\_104/110530\\_全国連ガイドライン\(ver.1\).pdf](http://www.shokokai.or.jp/top/html/kigyosai/2_104/110530_全国連ガイドライン(ver.1).pdf)
  7. For details, see the following National Federation of Shopping Center Promotion Associations website (Japanese only):  
[http://www.syoutengai.or.jp/saigaifukkyu/setsuden\\_guideline.pdf](http://www.syoutengai.or.jp/saigaifukkyu/setsuden_guideline.pdf)

## Case 1-2-9

### A company that successfully cut electricity costs about 15% through conservation

Kuboco Corporation, located in Chiyoda City, Tokyo, is engaged in building and housing construction, real estate use consulting, and the environmental greening businesses with 83 employees and capital of ¥200 million.

Kuboco Corporation began an energy conservation initiative from 2009. The efforts have included reducing the number of fluorescent light bulbs in fixtures, diligently turning off lights not being used, introducing LED lighting, turning off hot water heaters when not being used, and placing limits on the use of air conditioning and elevators. The company's environmental greening division has developed artificial light-weight soil for roof greening, and is using construction technologies for comprehensive works from waterproofing to installation. The headquarters building has a garden and a vegetable garden on its roof and wisteria on its walls, which prevent the heat-island phenomenon and lessen air conditioning load. As a result of these efforts, Kuboco Corporation reduced its electricity charges by about 15% from 2008 to 2010.

In response to the electricity supply shortage expected this summer, Kuboco Corporation has set a goal of a further 15% reduction in electricity consumption by introducing casual attire early in the government's Cool Biz campaign and setting air conditioners at higher temperatures.



Restrictions imposed on employee elevator use to conserve electricity

## Section 5 Other effects affecting the whole of Japan

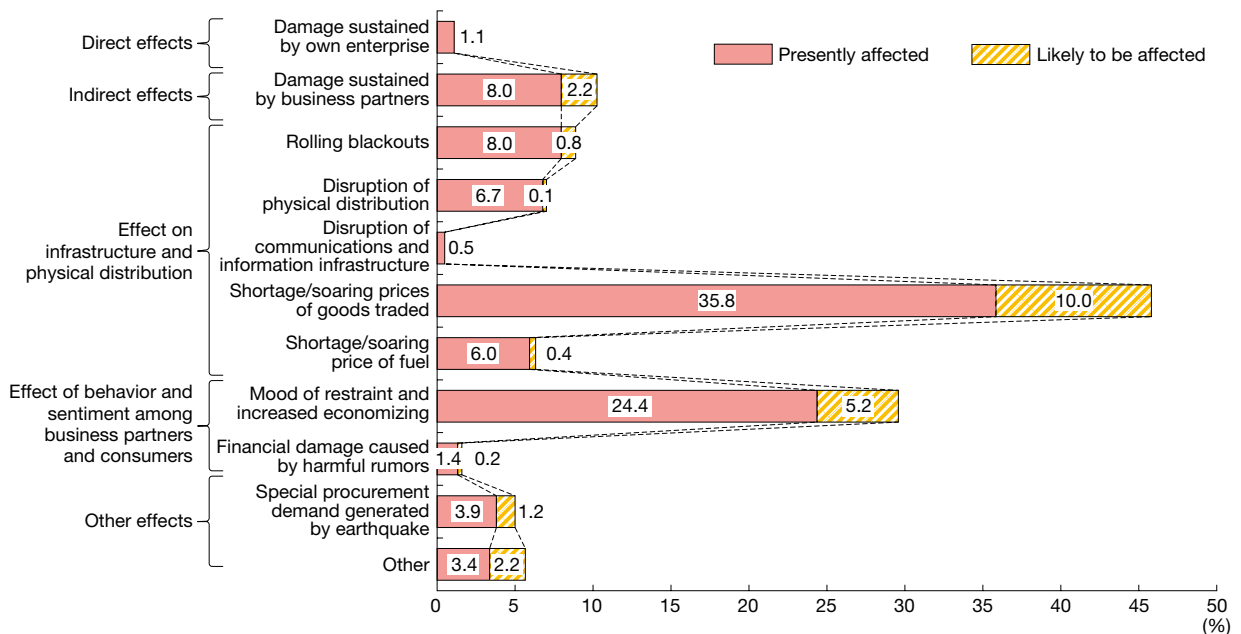
In addition to the direct impact that the earthquake and subsequent tsunami, nuclear power plant accident, and power supply constraints have had, enterprises throughout the country beyond the affected regions have experienced various knock-on effects.

Fig. 1-2-14 summarizes the responses of 1,395 enterprises throughout the country surveyed for the JFC’s *Monthly National Survey of Trends in the Small Business Sector* regarding the impact of the earthquake and associated disasters. This shows that the commonest response of enterprises that said that they were presently

or looked likely to be affected was “shortage/soaring prices of goods traded,” which was cited by a little under 50% of the total. This was followed by “mood of restraint and increased economizing” (approximately 30%), and “damage sustained by business partners” (approximately 10%). Below, we examine the most commonly felt impacts of the earthquake on SMEs throughout the country, viz., the impact on supply chains of the disruption of physical distribution and the damage to business partners, and the decline of consumer sentiment reflected in the mood of restraint among enterprises and consumers.

**Fig. 1-2-14 Effects of the Great East Japan Earthquake**

Effects were felt throughout Japan in the form of shortages and soaring prices of goods traded, the mood of restraint, increased economizing, etc.



Source: JFC, *Monthly National Survey of Trends in the Small Business Sector* (conducted April 2011).

- Notes:
1. Proportions are calculated using the sum of enterprises that answered “presently affected” or “likely to be affected” as the population parameter.
  2. Totals do not necessarily sum to 100 due to multiple responses.
  3. Results of a survey of 1,395 business customers of JFC (excluding the prefectures of Iwate, Miyagi, Fukushima, and Ibaraki).

### ● Effects on supply chains

The earthquake had a major impact on supply chains, with the disruption of physical distribution caused by the shutdown of affected enterprises and destruction of transport infrastructure making it difficult to supply products to the affected regions and to distribute them to those regions.

Fig. 1-2-15 shows the top five product categories in

terms of value of shipments in the affected regions of the prefectures of Aomori, Iwate, Miyagi, and Fukushima. Apparent from this is that shipments of automotive parts and accessories, other electronic parts, devices, and electronic circuits, and integrated circuits are high. The difficulty of doing business with enterprises supplying essential parts for industry has thus in some cases impacted on supply chains.

**Fig. 1-2-15 Top five categories of shipment in affected regions**

The values of shipments of automotive parts and accessories, other electronic parts, devices, and electronic circuits, and integrated circuits in affected regions is high.

Rank	Product category	Value of shipments (¥10 billion)		% of total
		Affected regions	All Japan	
1	Automotive parts and accessories	67	2,654	2.5
2	Other electronic parts, devices, and electronic circuits	33	405	8.1
3	Integrated circuits	31	431	7.1
4	Western and machine-made Japanese paper	30	208	14.4
5	Vehicles (including motorcycles)	27	969	2.8
All categories		1,165	30,525	3.8

Source: Recompiled from METI, 2008 *Census of Manufactures*.

- Notes: 1. Figures for the affected regions are aggregates for the municipalities subject to the Disaster Relief Act (as of March 24, 2011) in the prefectures of Aomori, Iwate, Miyagi, and Fukushima.  
2. Figures on shipments are aggregates of each product category based on the manufacturing product numbering scheme used for product classification in the *Census of Manufactures*.

The indices of industrial production for March 2011, when the earthquake struck, show that in the Tohoku region in northeastern Japan, where the direct damage was severe, there were large declines of at least 90% in the petroleum products industry and around 60% in the furniture, iron and steel, pulp, paper and paper processing industries. In other regions excluding Shikoku, on the

other hand, the rate of decline was markedly higher in transport equipment, which fell some 30% to 50%, than in other industries. It thus appears that the national impact was widened by the impeding of supplies of raw materials and parts from enterprises in the affected regions (Fig. 1-2-16).

**Fig. 1-2-16 Indices of industrial production in March 2011 (by region) and impact on SMEs**

Indices for transport equipment slumped sharply throughout Japan, and not only in Kanto, in March 2011.

(Seasonally adjusted, 2005 =100)

	Hokkaido				Tohoku				Kanto				Chubu			
	Industry	February	March	% change from previous month	Industry	February	March	% change from previous month	Industry	February	March	% change from previous month	Industry	February	March	% change from previous month
1st	Transport equipment	142.4	100.8	-29.2	Petroleum products	99.6	5.9	-94.1	Transport equipment	80.9	40.3	-50.2	Transport equipment	101.5	56.6	-44.2
2nd	Furniture	84.6	61.9	-26.8	Furniture	73.2	24.1	-67.1	Rubber products	79.9	58.1	-27.3	Non-ferrous metals	97.8	77.9	-20.3
3rd	Non-ferrous metals	429.7	316.9	-26.3	Iron and steel	102.6	35.3	-65.6	Petroleum and coal products	91.3	67.0	-26.6	Furniture	73.5	64.5	-12.2
4th	Wood and wood products	100.0	86.0	-14.0	Pulp, paper, and paper products	99.1	40.3	-59.3	Iron and steel	103.1	76.9	-25.4	Electrical machinery	104.6	93.1	-11.0
5th	Textiles	74.2	66.1	-10.9	Chemicals	123.4	65.3	-47.1	General machinery	93.0	71.5	-23.1	Plastic products	92.4	82.4	-10.8
Overall	Mining and manufacturing	97.4	91.9	-5.6	Mining and manufacturing	99.5	64.7	-35.0	Mining and manufacturing	91.1	74.2	-18.6	Mining and manufacturing	100.2	82.1	-18.1

	Kinki				Chugoku				Shikoku				Kyushu				All Japan			
	Industry	February	March	% change from previous month	Industry	February	March	% change from previous month	Industry	February	March	% change from previous month	Industry	February	March	% change from previous month	Industry	February	March	% change from previous month
1st	Transport equipment	83.5	59.3	-29.0	Transport equipment	111.9	79.5	-29.0	Metal products	70.6	61.0	-13.6	Transport equipment	127.4	72.4	-43.2	Transport equipment	99.3	52.9	-46.7
2nd	Information and communication electronics equipment	104.6	80.1	-23.4	Foods and tobacco	123.9	95.8	-22.7	Transport equipment	105.4	99.4	-5.7	Information and communication electronics equipment	76.4	45.7	-40.2	Non-ferrous metals	93.8	78.3	-16.5
3rd	General machinery	108.5	89.4	-17.6	Fabricated metals	82.6	66.3	-19.7	Mining	93.6	88.4	-5.6	Plastic products	113.0	104.0	-8.0	Rubber products	96.0	81.1	-15.5
4th	Furniture	74.1	66.6	-10.1	General machinery	80.9	65.8	-18.7	Petroleum and coal products	119.8	113.3	-5.4	General machinery	116.5	109.5	-6.0	Furniture	74.9	64.0	-14.6
5th	Leather products	58.9	53.7	-8.8	Pulp, paper, and paper products	93.4	84.4	-9.6	Non-ferrous metals	107.9	104.8	-2.9	Ceramics, stone, and clay products	100.3	95.5	-4.8	General machinery	93.9	80.3	-14.5
Overall	Mining and manufacturing	101.7	96.6	-5.0	Mining and manufacturing	97.4	91.0	-6.6	Mining and manufacturing	97.5	98.4	0.9	Mining and manufacturing	105.6	97.1	-8.0	Mining and manufacturing	97.9	82.7	-15.5

Source: METI, *Indices of Industry Production*.

Note: The indices of industrial production calculated and published by each Regional Bureau of Economy, Trade and Industry are used.

#### Situation of SMEs

- Leading automakers have also suffered major declines in output, though production of some models has now recommenced. Partly due to the disruption of supplies from the Tohoku region, entire supply chains have been severely affected. Looking ahead, concerns are being voiced that SMEs serving as third- and fourth-order suppliers in the regions concerned may become severely financially squeezed. (Late March report from business association in Aichi Prefecture)
- Suspended and reduced operation necessitated by the destruction of buildings in the affected regions and rolling blackouts are disrupting supplies of raw materials and affecting manufacture of parts. If this situation becomes protracted, there is a risk that parts for export to overseas manufacturers may be sourced from elsewhere overseas, and that this custom may not be regained once operations have returned to normal. (Late March report from Hamamatsu Chamber of Commerce and Industry, Shizuoka Prefecture)

The impact on supply chains of the disruption of supplies of raw materials and parts from the affected regions has thus been felt nationwide. Some of the SMEs that have been affected, however, have been able to maintain their supply arrangements by assisting business

partners that have suffered serious damage, limiting the impact on business partners by moving molds and dies to other enterprises' plants for production there, or conscious of their position as suppliers, putting everything into maintaining their ability to supply automotive parts.

### Case 1-2-10

#### A company that maintained its supply chain by supporting a supplier

Horio Seisakusho K.K. is a company based in Ishinomaki City, Miyagi Prefecture with 52 employees and capital of ¥20 million which conducts high precision casting using zinc die casting<sup>22)</sup> and holds an approximately 30% global share of the optical pickup<sup>23)</sup> component market. Horio Seisakusho is located on high ground, so it was spared tsunami damage. However the factory responsible for final parts processing and inspection operated by its business partner Ogatsu Musen Co., Ltd. (which is also located in Ishinomaki City, with 14 employees and capital of ¥3 million) was washed away by the tsunami together with all its equipment. Ogatsu Musen was on the verge of closing its business, but they survived because Horio Seisakusho lent them idle factory space and production machinery free of charge. Meanwhile, Horio Seisakusho itself had no excess inventory of automobile components and was being forced to make late deliveries. With help from Ogatsu Musen, the company quickly fabricated machine tools, gradually caught up with orders, and avoided line stoppages at its customers. Horio Seisakusho expresses their thanks. "We thought it would be difficult to keep up with orders even if we asked other companies for help, but by having Ogatsu Musen continue their work, we kept up with component manufacturing."

### Case 1-2-11

#### A company which minimized the impact on business partners by bringing its molds to another company's factory to resume production

Iwanuma Seiko Co., Ltd. is engaged in precision press work, mold manufacturing, and the design and production of labor-saving equipment in Iwanuma City, Miyagi Prefecture with 50 employees and capital of ¥10 million. The company has a high market share in terminals for consumer use lithium ion batteries.

The disaster put Iwanuma Seiko's plant about 1.2 meters under water, damaging over 500 types of molds, machinery and facilities. President Kiyoshi Chiba says, "When I saw the damage to the plant, for a moment I thought we would just close the business, but when I thought of our responsibility to supply customers and about the future of our employees and their families, I resolved to carry on."

To minimize the impact on customers, Iwanuma Seiko used undamaged inventory to fill orders from before the disaster, gave top priority to cleaning and preventing rusting of molds essential for mass production products, and initially resumed production using the company's molds and employees at a factory rented from another business in the same industry. Iwanuma Seiko was able to resume operations at its own plant within about a month by purchasing used items to replace damaged machinery and equipment, preparing the production system, and renting large generators until the electricity supply resumed.

Iwanuma Seiko president Chiba says, "The damages were great, but because we cannot inconvenience our business partners, our entire company worked as one with the support of customers, other companies in the industry and associates to quickly resume operations. We finally made it this far, and I am really thankful."

### Case 1-2-12

#### A company that made every effort to maintain automobile component supply capacity to fulfill its role as a supply manufacturer

Iwaki Diecast Co., Ltd. produces diecast components and mold-alloy metal injection molding products in the Watari district of Miyagi Prefecture with 328 employees and capital of ¥200 million. It took the company about three weeks to resume production after the disaster. President Yoshio Saito says, "Most of that was waiting for the resumption of electricity supply. With electricity, we would have been up and running within a week." Iwaki Diecast is located in Yamamoto Town, which was severely damaged by the tsunami, but their premises are several kilometers from the coast and were barely harmed. The company is presently running at full production to fill orders received before the earthquake. The company's greatest concern is that customers may make hasty judgments assuming that Iwaki Diecast cannot be operating, and give their orders to competitors.

22) Die casting is the casting method of forcing molten metal under high pressure into precision molds for the mass production of cast metal objects with a high-precision, superior casting surface.

23) Optical pickups are devices to record and read data on CDs, DVDs and other optical discs using laser light.



● **Effects of decline of consumer sentiment**

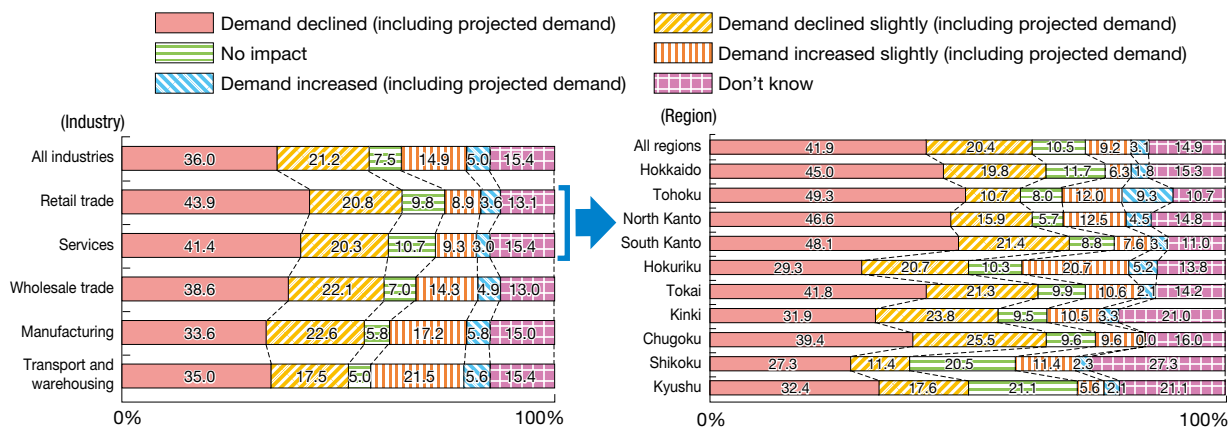
The earthquake led to a deterioration of consumer sentiment, felt most acutely in the retail, hotel, and other service industries, brought about by a mood of restraint arising out of concern for the affected regions, along with prolonged aftershocks and the impact of rolling blackouts.

The results of Teikoku Databank’s *Survey on Corporate Attitudes Toward the Effects of the Earthquake Disaster and Reconstruction Assistance*<sup>24)</sup> summarized in Fig. 1-2-17 indicate that large proportions of retailers (approximately

65%) and service providers (over 60%) believe that the earthquake caused demand to decline or to decline slightly. It thus appears that the impact of reduced demand due to lower consumer sentiment has been considerable in the retail trade and services. Breaking down the impact on the retail trade and services by region, we find that, in addition to Tohoku and Kanto, at least 60% of enterprises in Hokkaido, Tokai and Chugoku reported that demand had declined or slightly declined, giving some indication of the nationwide knock-on effects of the disaster.

**Fig. 1-2-17 Earthquake’s impact on demand experienced by SMEs**

Broken down by industry, high proportions of retailers and service providers reported a decline or slight decline of demand. In addition to Tohoku and Kanto, at least 60% of retailers and service providers in Hokkaido, Tokai and Chugoku reported that demand had declined or slightly declined, evidencing the nationwide extent of the impact.



Source: Teikoku Databank, *Survey on Corporate Attitudes Towards the Effects of the Earthquake Disaster and Reconstruction Assistance* (March 2011).

- Notes: 1. Only SMEs are included in the above.
- 2. The figures on the right include only retailers and service providers.

**Situation of SMEs**

- Sales in March fell around 40% from a year earlier. Because of the nuclear power plant accident and rolling blackouts, no one is in the mood to buy clothes. (Early April report from ladies' wear wholesaler in Chuo City, Tokyo)
- Although we had hoped there would be a spike in demand due to the eco point program expiring at the end of March, sales were awful after the earthquake. Wiring work that we perform to install domestic appliances consequently underperformed projections. (Early April report from electrical wiring contractor in Osaka)
- The total cancellation of orders for leaflets immediately after the quake caused sales in March to slump 70% from the previous year. Although sales have crept back up thanks in large part to demand from leading enterprises, they are unlikely to return to their normal level by the end of April. The soaring cost of gasoline has also had a serious impact, making it extraordinarily difficult to turn a profit. (Early April report from advertising agency in Setagaya City, Tokyo)
- We make and retail Japanese confectionery (mainly for purchase as gifts and souvenirs) near Miyajima. The normally large number of foreign tourists to Miyajima plummeted following the earthquake, deeply impacting on our sales. (Early April from Japanese confectionery retailer in Hatsukaichi City, Hiroshima Prefecture)

So far, we have described the nationwide impact, felt most strongly in the retail trade and services, of the decline in consumer sentiment caused by the earthquake. Below, we move on to look at the effects experienced respectively by the retail trade and services such as hotels.

Fig. 1-2-18 shows the rates of change from a year

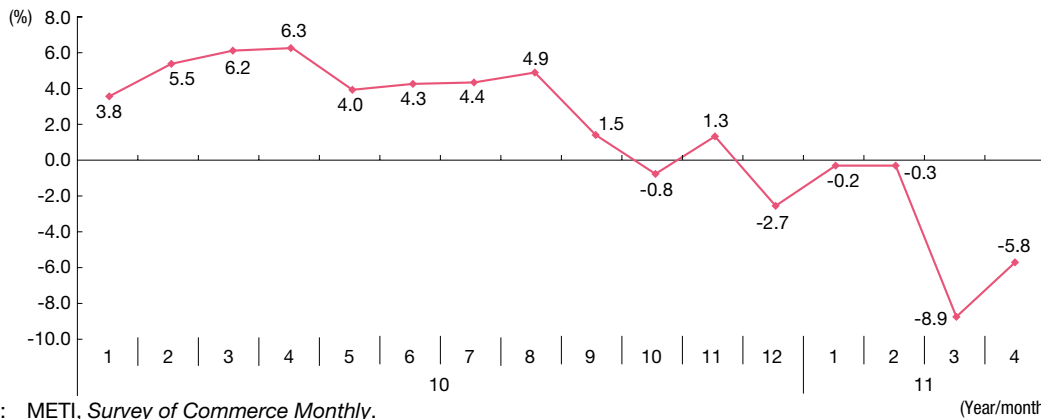
earlier in retail sales excluding large retailers. Apparent from this is that sales slumped 8.9% from a year earlier in March 2011, when the earthquake occurred, which indicates that the quake-induced decline in consumer sentiment has had a major impact on the sales of small and medium retailers.<sup>25)</sup>

24) This was a survey of 22,097 enterprises conducted in March 2011 by Teikoku Databank. The response rate was 48.6%.

25) According to MIC’s *Family Income and Expenditure Survey*, spending on foods increased after the earthquake, while spending on clothing, footwear, and culture and recreation decreased. See Appended Note 1-2-2.

**Fig. 1-2-18 Year-on-year rates of change in retail sales (excluding large retailers)**

Sales plummeted in March 2011 when the quake struck.



Source: METI, *Survey of Commerce Monthly*.

Note: Large-scale retailers are retail establishments with 50 or more employees that are classified by the *Japan Standard Industrial Classification* (revised March 2002) as department stores or general merchandise supermarkets. Department stores are establishments other than supermarkets that have floor space of not less than 3,000 square meters in special regions and ordinance-designated cities and not less than 1,500 in all other regions, and supermarkets are establishments that have floor space of at least 1,500 square meters, at least 50% of which is self-service.

Next, we consider the impact on hotels of the decline in tourism from Japan and abroad as a result of the earthquake and nuclear power plant accident, etc.

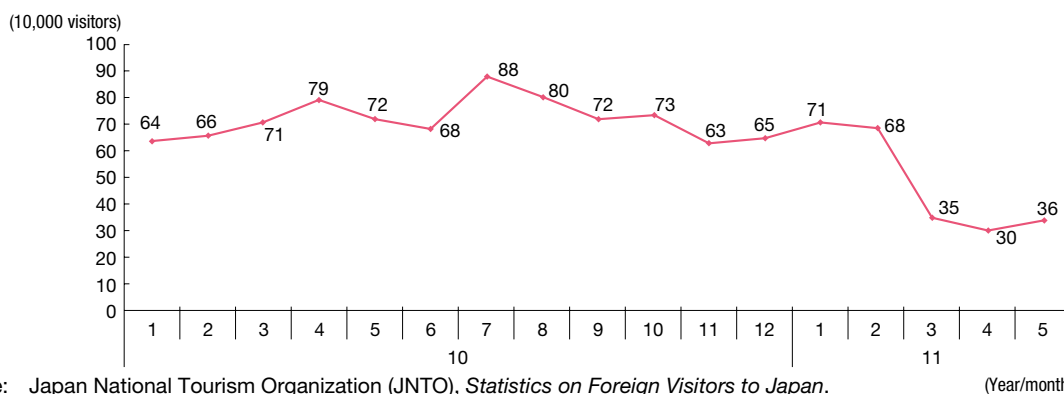
The figures on foreign visitors to Japan shown in Fig. 1-2-19, published by the Japan National Tourism Organization (JNTO), reveal that the number decreased 50.3% from a year earlier in March 2011, marking the biggest drop since surveys began. Comparing the periods before and after the earthquake, we find that while the number of foreign visitors rose 4% from a year earlier to around 215,000 between March 1 and 11, the post-quake

period from March 12 to 31 saw numbers drop 73% to around 137,000. This was followed by a 62.5% fall from a year earlier in April, which was a record single-month decline for the second month running.

Domestic visitors also declined as a mood of restraint took hold and consumers abandoned their travel plans. According to the Japan Tourism Agency, the March-April 2011 period saw hotel reservation cancellations reach approximately 61% in Tohoku, 48% in Kanto, and 36% nationally.

**Fig. 1-2-19 Numbers of foreign visitors and impact on SMEs in the tourism industry**

Numbers of foreign visitors have slumped since March 2011.



Source: Japan National Tourism Organization (JNTO), *Statistics on Foreign Visitors to Japan*.

- Notes:
1. "Foreign visitors" consists of legal foreign entrants to Japan less foreign residents, to which number is then added foreign transit passengers and other foreign travellers. The resulting number indicates the number of entrants holding a foreign passport.
  2. Figures for April and May 2011 are independent estimates calculated by the JNTO.

**Situation of SMEs**

- Every reservation up to the end of April has been cancelled since March 11, and we are currently receiving no new reservations at all. (Early April report from hotelier in Utsunomiya City, Tochigi Prefecture)
- There has been a wave of hotel cancellations since the quake on March 11. Cancellations by foreign tourists in particular have leapt, and we are concerned about the impact that this will have on the spa town. (Mid-March report from Noboribetsu Chamber of Commerce and Industry, Hokkaido)
- Hotels in the city are all experiencing cancellations and are having to lay off large numbers of employees. (Mid-April report from Fukushima Prefecture Association of SMEs)

While the decline in consumer sentiment has caused consumption to contract nationwide, especially in retailing and service industries such as the hotel trade, there do

exist shopping districts that are taking steps to alleviate the mood of restraint and enterprises that are working to restore sales.

### Case 1-2-13

#### A neighborhood store association's initiative to dispel consumer restraint

Restaurant managers and other members of the Koenji-Ginza Neighborhood Store Association in Suginami City, Tokyo launched the disaster relief charity project "Eau de Vie" together with their customers. This project encourages consumers, rather than refraining from eating out and drinking alcohol in respect of the earthquake victims, to support disaster relief by ordering from charity menus at each restaurant or ordering one more dish or one more drink at the participating bars and restaurants, which donate a portion of the proceeds to the disaster areas.

The Koenji-Ginza Neighborhood Store Association is positively supporting the project because it directly supports the disaster areas with fundraising suitable for bars and restaurants, and because it brings renewed demand to the shopping district, where sales are being severely affected by depressed consumer sentiment. By approaching various parties, the project has also gained the support of the Federation of Koenji Neighborhood Store Associations, which has 10 member associations. This has increased recognition of the project, and is expected to lead to further efforts.

### Case 1-2-14

#### A company making every effort to revive sales despite the decline in consumer sentiment

Mobby Dick Inc., based in Ishinomaki City, Miyagi Prefecture, manufactures and distributes wet suits and other products with 81 employees and capital of ¥83 million. Mobby Dick has the top market share for high-quality, ergonomics-based wetsuits in Japan. While their order backlog has fallen below normal from the effects of the disaster, Mobby Dick is securing orders with support from their business partners nationwide, even under depressed consumer sentiment, based on their established strong relationships with business partners.

Mobby Dick president Mamoru Yasuda says "Because our company specializes in leisure products, I hope that consumer sentiment picks up soon." The company plans to gradually return to regular plant operations.

In this section, we have seen how the impact on supply chains due to the disruption of supplies of parts and materials from the affected regions has had ramifications for Japan as a whole, as has the impact on the retail trade and services of the decline in consumer sentiment caused by the mood of restraint engendered by concern for the affected regions. Reacting to the nationwide extent of these

impacts, the government is helping enterprises with their finances through the provision of loans and guarantees, and supporting employment through the provision of employment adjustment subsidies and employment insurance. Alongside these measures, it is also helping the establishment of a system for consultations in person and via telephone. <sup>26)</sup>

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26) See Column 1-2-6.

## Column 1-2-6 Establishment of a consultation system

With the nationwide spread of such effects, the government has established special consultation desks at public financial institutions and chambers of commerce and industry nationwide, and is responding to inquiries from SMEs (Column Figure 1-2-6 (1)).

### Column Fig. 1-2-6 (1) Arrangement of a nationwide consultation system

With the nationwide spread of such effects, the government is responding quickly and compassionately with wide-ranging, diverse consultations by establishing a system for consultations in person and via telephone.

#### **Establishment of special consultation desks**

The government has established special consultation desks at public financial institutions and chambers of commerce and industry nationwide, and is receiving wide-ranging diverse inquiries regarding the earthquake disaster.

#### **SME Navi-dial telephone consultation**

The government is receiving all types of inquiries and requests for consultations regarding cash flow, employment, tax system and other support measures.

#### **Situation of SMEs**

- Our business premises were damaged and we have suspended operations. We are worried about repayment of loans to financial institutions, cash flow, and payment of subcontractors. (Late April report from manufacturing industry, Ishinomaki City, Miyagi Prefecture)
- We are offering replacement driver service, but business has plunged since the disaster and we do not have sufficient working capital. (Late April report from transportation industry, Utsunomiya City, Tochigi Prefecture)
- While we are outside the evacuation areas, our sales have plummeted because customers do not come anymore. We need funds for the time being. (Mid-April report from restaurant industry, Tamura City, Fukushima Prefecture)
- We are in the tourism industry. All our reservations have been cancelled since the earthquake, and we are not getting any new reservations. (Mid-April report from service industry, Tsuchiura City, Ibaraki Prefecture)

#### **For further information, contact:**

Consultations & inquiries:

SME Navi-dial telephone consultation: 0570-064-350 (9:00~17:30)

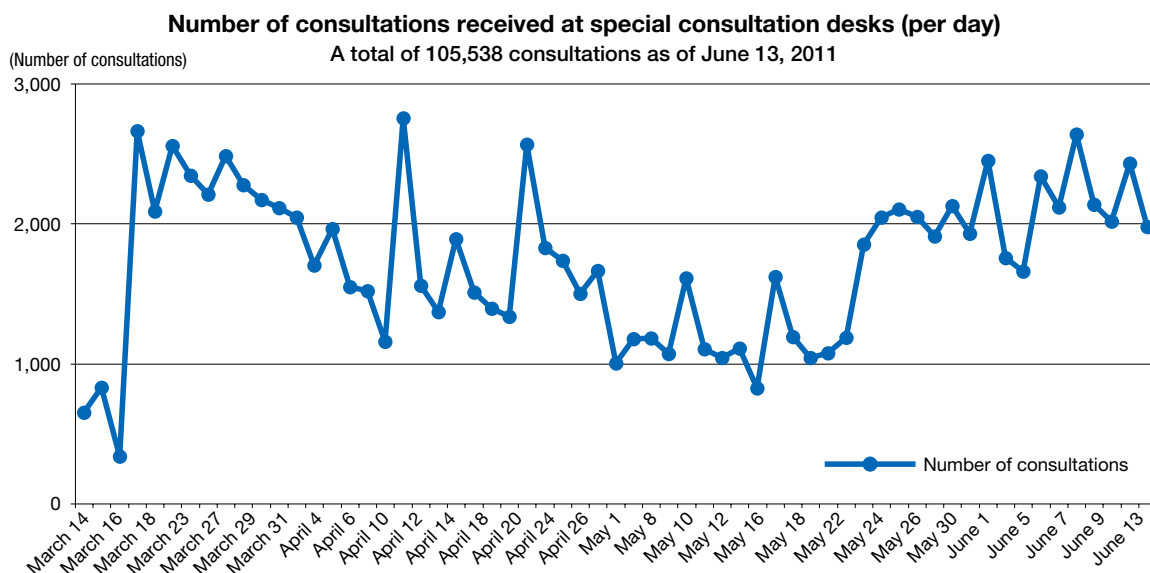
\* For financing, contact Japan Finance Corporation, the Okinawa Development Finance Corporation, or Shoko Chukin Bank; for guarantees, contact your local credit guarantee corporation.<sup>1</sup>

Note: 1. For details, see the following SME Agency website (Japanese only):  
<http://www.chusho.meti.go.jp/earthquake2011/download/110526NDC.pdf>

The special consultation desks are receiving requests for a wide range of consultations, and have provided a total of 105,538 consultations as of June 13, 2011 (Column Figure 1-2-6 (2)).

### Column Fig. 1-2-6 (2) Special consultation desks performance record

The special consultation desks are receiving requests for a wide range of consultations, and have provided a total of 105,538 consultations as of June 13, 2011



Source: Compiled by SME Agency.

### Funding support measures implemented since the Great East Japan Earthquake

#### • Loans

	Total loans (Japan Finance Corporation + Shoko Chukin Bank)	May 23~June 10, 2011	March 14~May 22, 2011	
		Great East Japan Earthquake Recovery Special Loans	Disaster recovery loans	Safety net loans
<b>Number</b>	58,577	11,852	7,369	39,356
<b>Amount</b>	¥952.7 billion	¥249.6 billion	¥88.4 billion	¥614.7 billion

#### • Guarantees

	Total guarantees (credit guarantee corporations)	May 23~June 10, 2011	March 14~June 10, 2011	
		Great East Japan Earthquake Recovery Emergency Guarantees	Disaster related guarantees	Safety net guarantees #5
<b>Number</b>	112,488	4,601	1,708	106,179
<b>Amount</b>	¥2,020.3 billion	¥140.7 billion	¥25.2 billion	¥1,854.4 billion

Source: Compiled by SME Agency.

Notes: 1. Disaster-recovery loans and Safety net loans have greatly expanded credit lines, lending periods, and interest rate reductions, and have been integrated together with the Great East Japan Earthquake Recovery Special Loans.  
2. Figures are preliminary statistics and may be revised hereafter.

In this chapter, we have seen not only that the damage caused by the Great East Japan Earthquake affected an extremely large area of eastern Japan, but also that the compounded series of major crises created by the massive earthquake, subsequent tsunami and nuclear power plant accident had a far-reaching impact on SMEs doing business with enterprises in the affected regions, as well as SMEs in the affected regions themselves. In order to ensure that community life and business activity in the affected regions recover as soon as possible, and also to minimize the Great East Japan Earthquake's impact on the Japanese economy, the government is doing everything

that it can to assist SMEs and meet their diverse needs.

With this as a backdrop, we demonstrate in Part II how SMEs support Japan's industrial and local infrastructure and how they are responding to the rapid economic slowdown and deepening structural challenges, and analyze the importance of SMEs to the Japanese economy and society. Due to their importance to the sustained growth of the Japanese economy, we then analyze in Part III current trends and issues in moves by entrepreneurs to start up in or change their business, raise labor productivity, and target business opportunities overseas in the face of the severe conditions created by the earthquake.



# Part II

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## SMEs' role in sustaining the economy and society

SMEs are the driving force of the economy and play a leading role in society. They have also been behind Japan's economic growth to date, enriching our lives and contributing to the development of both the economy and society. The Small and Medium Enterprise Charter adopted by the Cabinet on June 18, 2010, draws attention to the significance and importance of the role played by SMEs. As observed in Chapter 2 of Part I, the Great East Japan Earthquake has prompted a renewed recognition of SMEs' importance, particularly as regards their crucial position in Japanese industry's supply chains and the part that they play in sustaining local community life. In Part II, we demonstrate how SMEs underpin Japan's industrial and community infrastructures and how they are responding to the rapid economic slowdown and deepening structural issues, before then analyzing the importance of SMEs to the Japanese economy and society.



# Chapter 1

## SMEs as the bedrock of industry and communities

How do SMEs currently sustain the Japanese economy and our everyday lives, and how have they changed to date as times have changed?

We begin this chapter by reviewing the statistics and other data on SMEs' position at the foundations of the Japanese economy and society, after which we proceed to examine the actual situation of the SMEs that support industry and support communities.

### Section 1 Position of SMEs

Using data on numbers of enterprises, numbers of workers, manufacturing value added, and various other statistics and indices on SMEs, we examine in this section

SMEs' position in the Japanese economy and society, along with how it has changed to date, from three main angles: size, industry, and region.<sup>1)</sup>

#### [1] Current situation

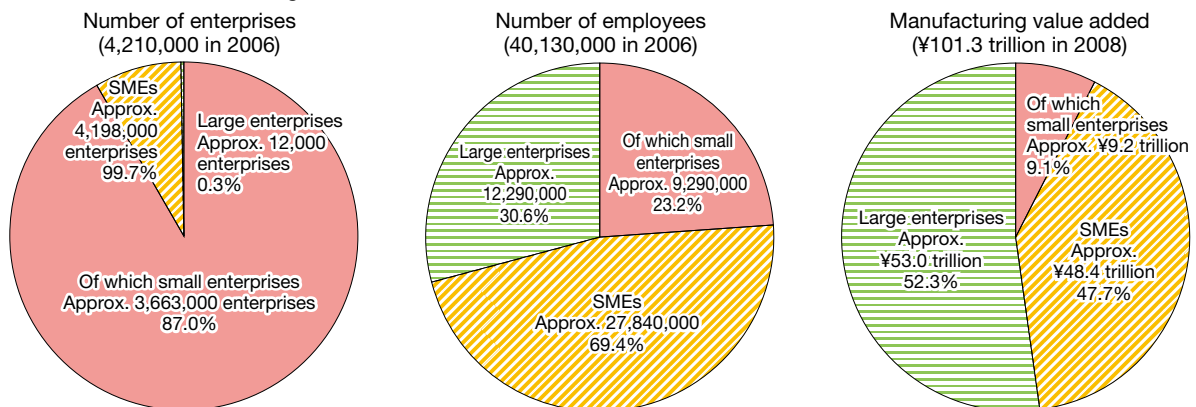
##### ● Number of enterprises, number of workers, and manufacturing value added

Fig. 2-1-1 shows the number of enterprises, number of workers, and manufacturing value added in Japan. There were 4.198 million SMEs in 2006, making up

99.7% of all enterprises, and the 27.84 million workers of SMEs accounted for around 70% of total employment. In manufacturing too, which accounts for around 20% of gross national product (GNP), the figures show SMEs to play an important role in supporting the Japanese economy, with SMEs producing approximately 50% (¥48.4 trillion) of total manufacturing value added.

**Fig. 2-1-1 Enterprises, workers, and manufacturing value added in the SME sector**

SMEs make up 99.7% of enterprises, approximately 70% of employment, and approximately 50% of manufacturing value added.



Source: Recompiled from MIC, 2006 Establishment and Enterprise Census of Japan.

Notes: 1. Number of enterprises = number of companies + business establishments of sole proprietors (independent establishments, business establishments of sole proprietors, and head offices, etc.)  
2. Only privately-managed business establishments are included in the above.

Source: Recompiled from MIC, 2006 Establishment and Enterprise Census of Japan.

Notes: 1. Number of workers = number of regular employees of companies + number of workers of business establishments of sole proprietors  
2. Only privately-managed business establishments are included in the above.

Source: Recompiled from METI, 2008 Census of Manufactures.

Notes: 1. Value added of business establishments with four or more workers.  
2. Gross value added is used for business establishments with 4-29 workers.

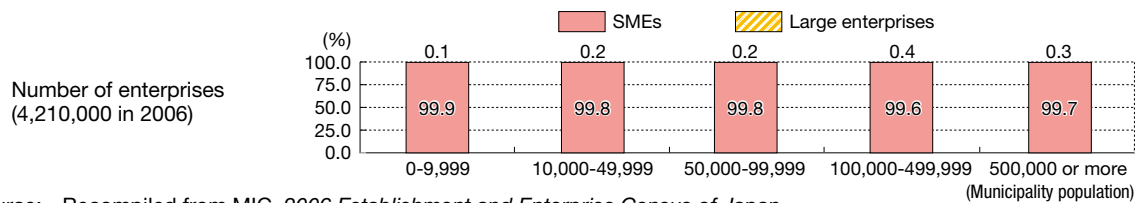
1) The supplementary statistical data to this white paper include statistics on numbers of SMEs for 2009 according to *Economic Census: Basic Analysis*. However, as these are provisional figures based on preliminary basic aggregates, the analysis in this chapter uses the data on SME numbers up to 2006 from MIC's *Establishment and Enterprise Census of Japan*.

Next, we break down the number of enterprises, number of workers, and manufacturing value added in the SME sector by municipality population size. According to Fig. 2-1-2, municipalities with smaller populations tend to have proportionately more enterprises, more workers, and more manufacturing value added accounted for by SMEs.

This tendency is particularly pronounced in municipalities with fewer than 10,000 inhabitants, where SMEs account for 99.9% of the number of enterprises, approximately 90% of the number of workers, and approximately 70% of manufacturing value added.

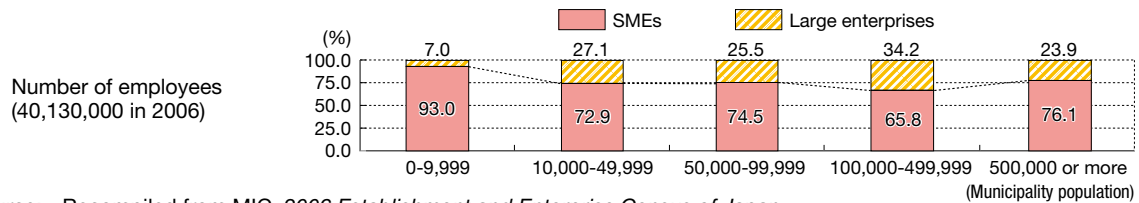
**Fig. 2-1-2 Enterprises, workers, and manufacturing value added in the SME sector (by municipality population size)**

In municipalities with fewer than 10,000 inhabitants, SMEs make up 99.9% of enterprises, approximately 90% of workers, and approximately 70% of manufacturing value added.



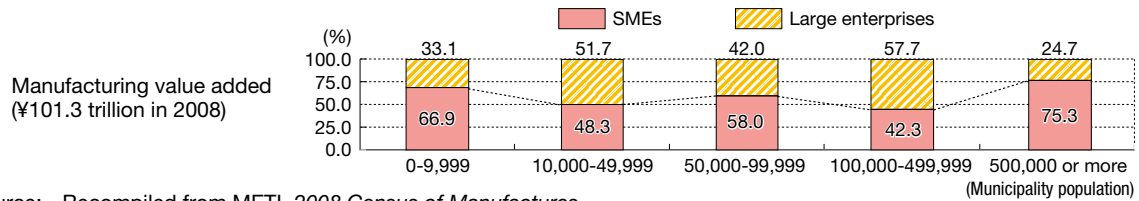
Source: Recompiled from MIC, 2006 Establishment and Enterprise Census of Japan.

- Notes: 1. Number of enterprises = number of companies + business establishments of sole proprietors (independent establishments and head offices, etc.)  
 2. Only privately-managed business establishments are included in the above.



Source: Recompiled from MIC, 2006 Establishment and Enterprise Census of Japan.

- Notes: 1. Number of workers = number of regular employees of companies + number of workers of business establishments of sole proprietors  
 2. Only privately-managed business establishments are included in the above.



Source: Recompiled from METI, 2008 Census of Manufactures.

- Notes: 1. Value added of business establishments with four or more workers.  
 2. Gross value added is used for business establishments with 4-29 workers.

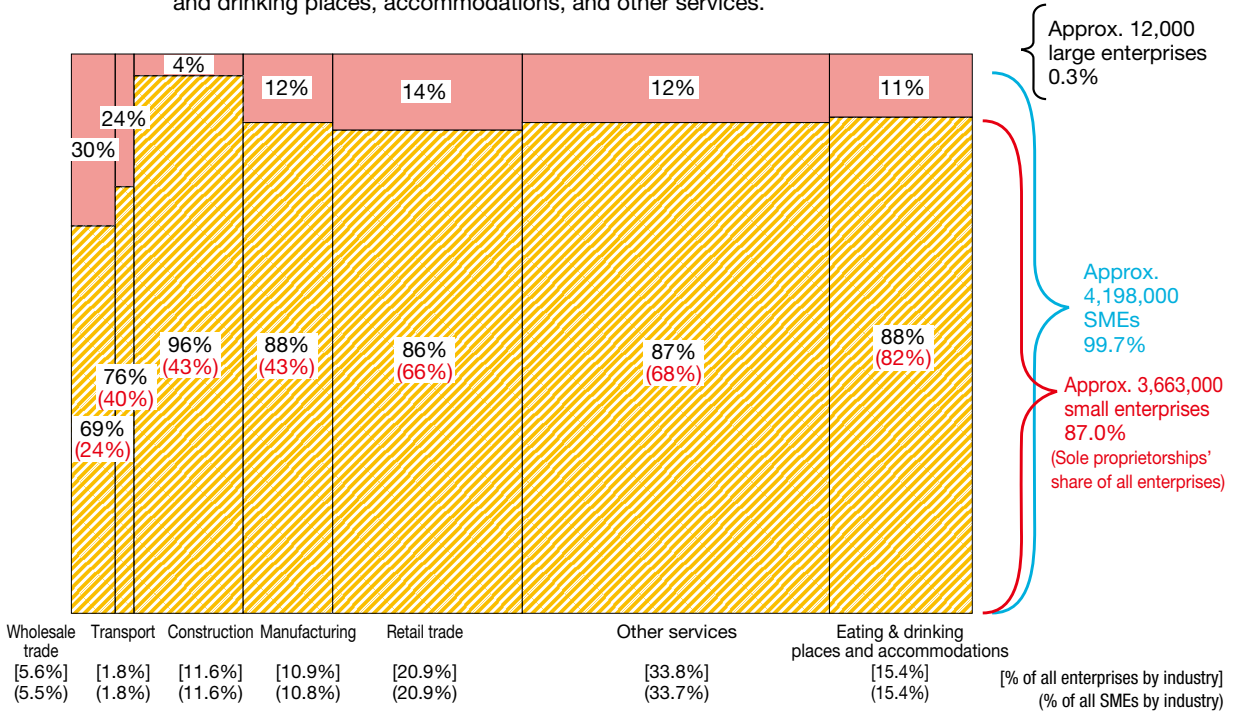
● **Numbers of enterprises and workers by industry**

The breakdown by industry of SMEs shown in Fig. 2-1-3 reveals that 12% of enterprises are in construction, 11% in manufacturing, and 70% in the retail trade, eating and drinking places, accommodations, and other

services. The construction industry stands out for its high proportion of small enterprises, while sole proprietorships are proportionately more likely to be found among eating and drinking places and accommodations.

**Fig. 2-1-3 Breakdown of SMEs by industry**

12% of SMEs are to be found in construction, 11% in manufacturing, and 70% in the retail trade, eating and drinking places, accommodations, and other services.



Source: Recompiled from MIC, 2006 Establishment and Enterprise Census of Japan.

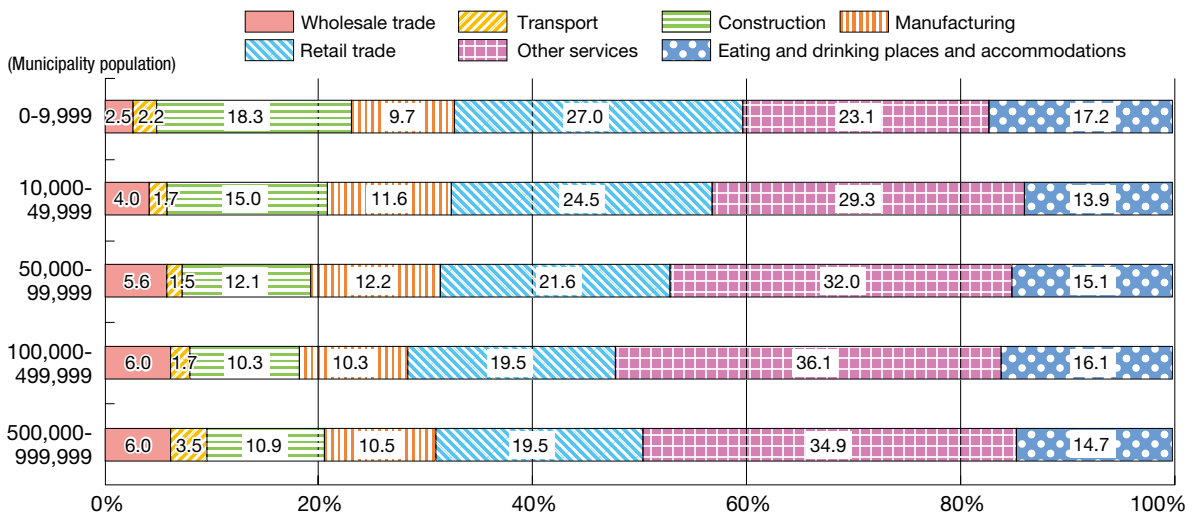
- Notes: 1. Number of enterprises = number of companies + business establishments of sole proprietors (independent establishments and head offices, etc.)  
 2. Only privately-managed business establishments are included in the above.

Fig. 2-1-4 gives a breakdown of SMEs by industry and municipality population size, from which it can be seen

that smaller municipalities tend to have more SMEs in construction.

**Fig. 2-1-4 Breakdown of SMEs by industry and municipality population size**

Municipalities with smaller populations have proportionately more SMEs in construction.



Sources: MIC, 2006 Establishment and Enterprise Census of Japan (recompiled) and Populations, Vital Statistics, and Numbers of Households Based on Basic Resident Registers (as of March 31, 2007).

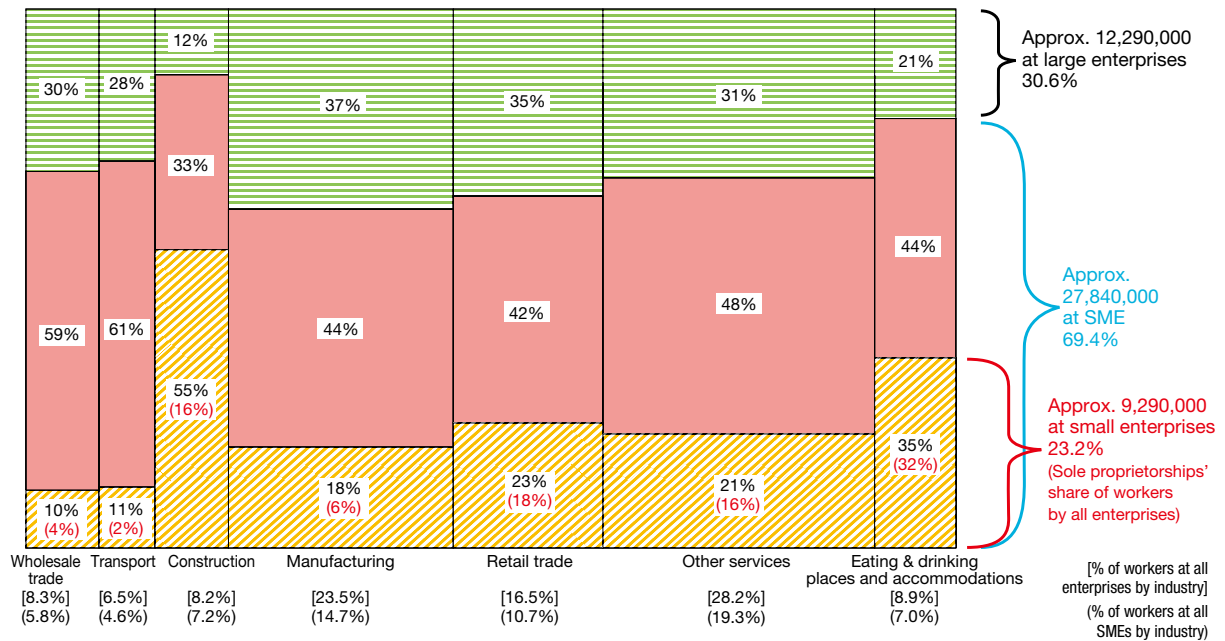
- Notes: 1. Number of enterprises = number of companies + business establishments of sole proprietors (independent establishments and head offices, etc.)  
 2. Only privately-managed business establishments are included in the above.

We consider next numbers of workers. The breakdown by industry of SME workers shown in Fig. 2-1-5 reveals that 7% are to be found in construction, 15% in manufacturing, and 37% in the retail trade, eating and drinking places, accommodations, and other services.

As with the breakdown of number of enterprises, the construction industry stands out for its high proportion of workers employed by small enterprises, while sole proprietorships account for proportionately more among eating and drinking places, and accommodations.

**Fig. 2-1-5 Breakdown of number of SME workers by industry**

7% are to be found in construction, 15% in manufacturing, and 37% in the retail trade, eating and drinking places, accommodations, and other services.



Source: Recompiled from MIC, 2006 Establishment and Enterprise Census of Japan.

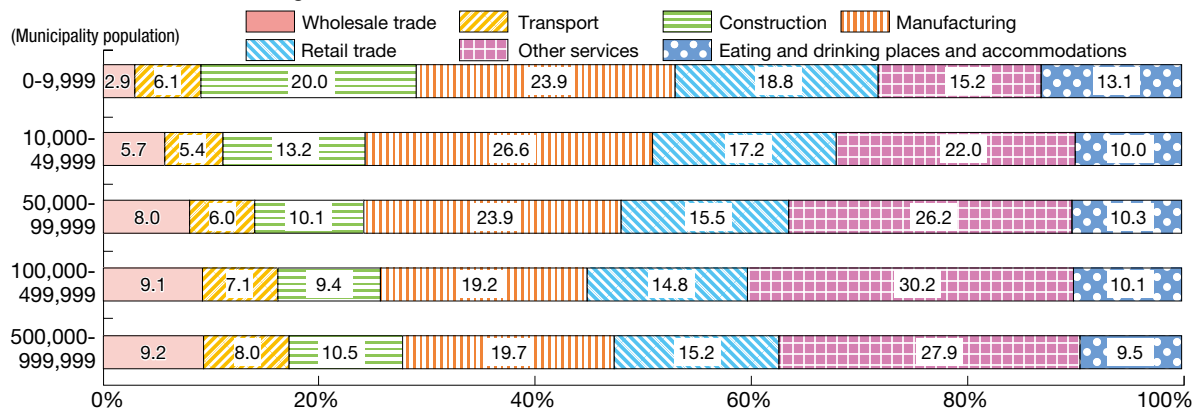
- Notes:
1. Number of workers = number of regular employees of companies + number of workers of business establishments of sole proprietors
  2. Only privately-managed business establishments are included in the above.

The breakdown of workers of SMEs by industry and municipality population size depicted in Fig. 2-1-6 shows that municipalities with small populations have high

proportions of workers in construction and manufacturing, which account for as much as approximately 40% of the total in municipalities with fewer than 10,000 inhabitants.

**Fig. 2-1-6 Breakdown of number of SME workers by industry and municipality population size**

Municipalities with smaller populations have proportionately more workers in construction and manufacturing.



Sources: MIC, 2006 Establishment and Enterprise Census of Japan (recompiled) and Populations, Vital Statistics, and Numbers of Households Based on Basic Resident Registers (as of March 31, 2007).

- Notes:
1. Number of workers = number of regular employees of companies + number of workers of business establishments of sole proprietors
  2. Only privately-managed business establishments are included in the above.

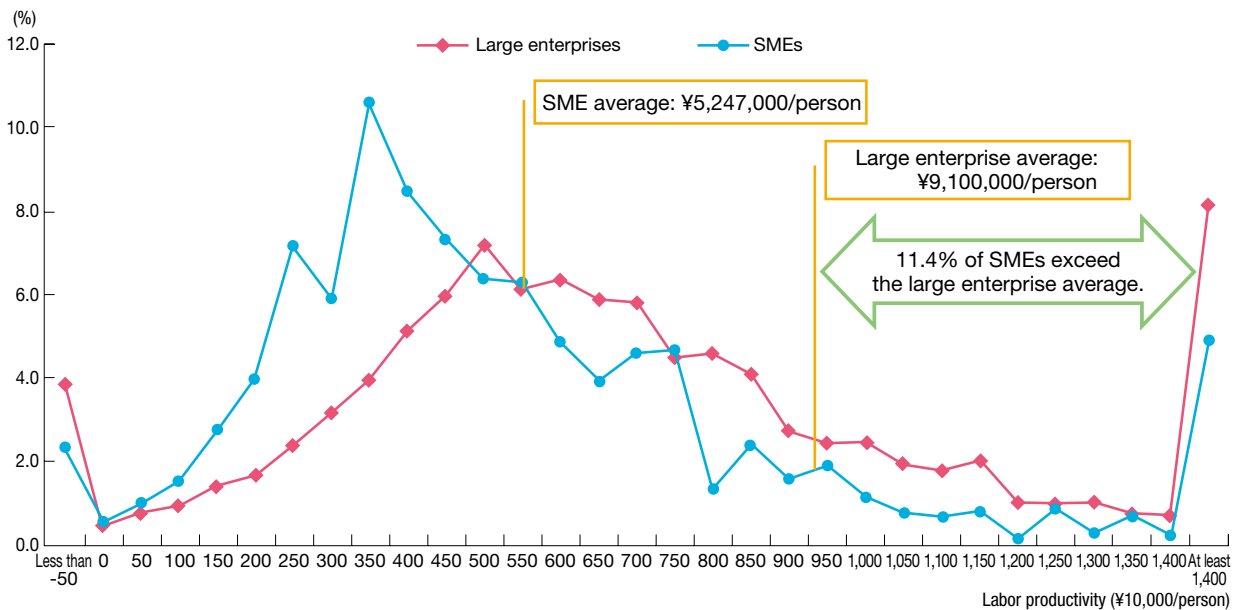
**SME labor productivity, capital-labor ratios, ratios of ordinary profit to sales, and equity ratios**

Having considered the proportions of enterprises, workers, and manufacturing value added accounted for by SMEs broken down by industry and municipality population size, we now look at the distributions of several indices for SMEs: labor productivity, capital-labor ratio, ratio of ordinary profit to sales, and equity ratio.

We begin with SMEs' labor productivity, which averages ¥5.25 million per person. This is less than the average of ¥9.10 million per person at large enterprises. In terms of distribution, the tendency is that the proportion of SMEs is higher for labor productivity of between ¥0 and ¥4.50 million per person, and the proportion of large enterprises is higher for that of at least ¥5.50 million per person. Nevertheless, 11.4% of SMEs exceed the average for large enterprises (Fig. 2-1-7).

**Fig. 2-1-7 Labor productivity distributions (manufacturing)**

SMEs' labor productivity is on average less than that of large enterprises, though 11.4% of SMEs exceed the large enterprise average.



Source: Recompiled from MOF, 2009 *Financial Statements Statistics of Corporations by Industry*.

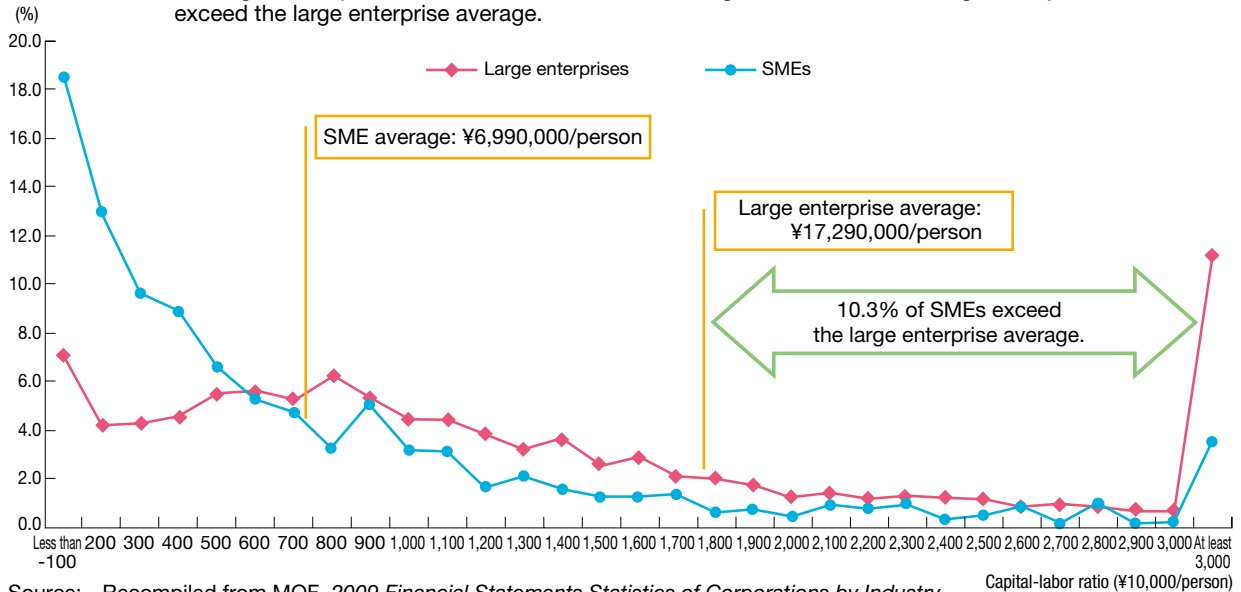
- Notes:
1. Values on the horizontal axis indicate the range from the neighboring value on the left up to but not including the value shown (e.g., "100" indicates the range from 50 to less than 100).
  2. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

Looking next at the capital-labor ratio, we find that SMEs average ¥6.99 million per person, which is only around 40% of the ¥17.29 million per person averaged by large enterprises. The distributions show that a large proportion of SMEs tend to have a capital-labor ratio of

less than ¥5.00 million per person, while large enterprises tend to have a ratio of at least ¥5.00 million per person. With the capital-labor ratio too, however, 10.3% of SMEs surpass the large enterprise average (Fig. 2-1-8).

**Fig. 2-1-8 Capital-labor ratio distributions (manufacturing)**

Although the capital-labor ratio of SMEs is on average less than that of large enterprises, 10.3% still exceed the large enterprise average.



Source: Recompiled from MOF, 2009 *Financial Statements Statistics of Corporations by Industry*.

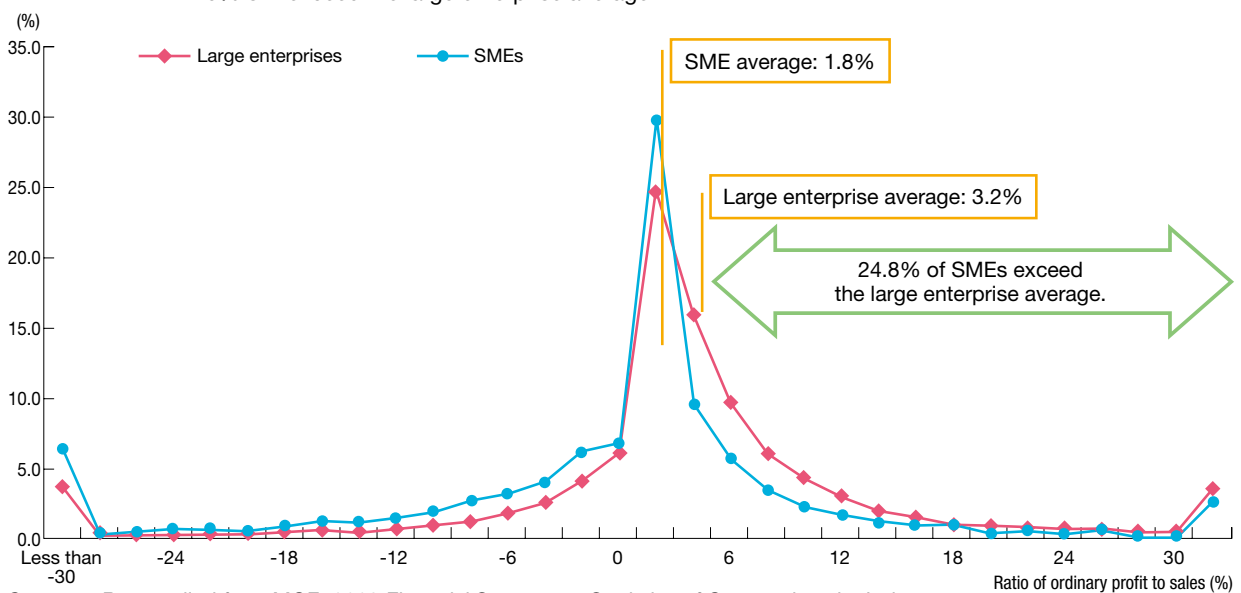
- Notes:
1. Values on the horizontal axis indicate the range from the neighboring value on the left up to but not including the value shown (e.g., “300” indicates the range from 200 to less than 300).
  2. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

We move on now to consider the ratio of ordinary profit to sales of SMEs. The average for SMEs is 1.8%, as compared with 3.2% for large enterprises. Moreover, the proportion of SMEs is higher in the negative range, and the proportion of large enterprises is higher in the positive

range. However, the modes for both large enterprises and SMEs range between 0% and less than 2%, and 24.8% of SMEs actually exceed the large enterprise average (Fig. 2-1-9).

**Fig. 2-1-9 Distribution of ratios of ordinary profit to sales**

Although the ratio of ordinary profit to sales of SMEs is on average less than that of large enterprises, 24.8% still exceed the large enterprise average.



Source: Recompiled from MOF, 2009 *Financial Statements Statistics of Corporations by Industry*.

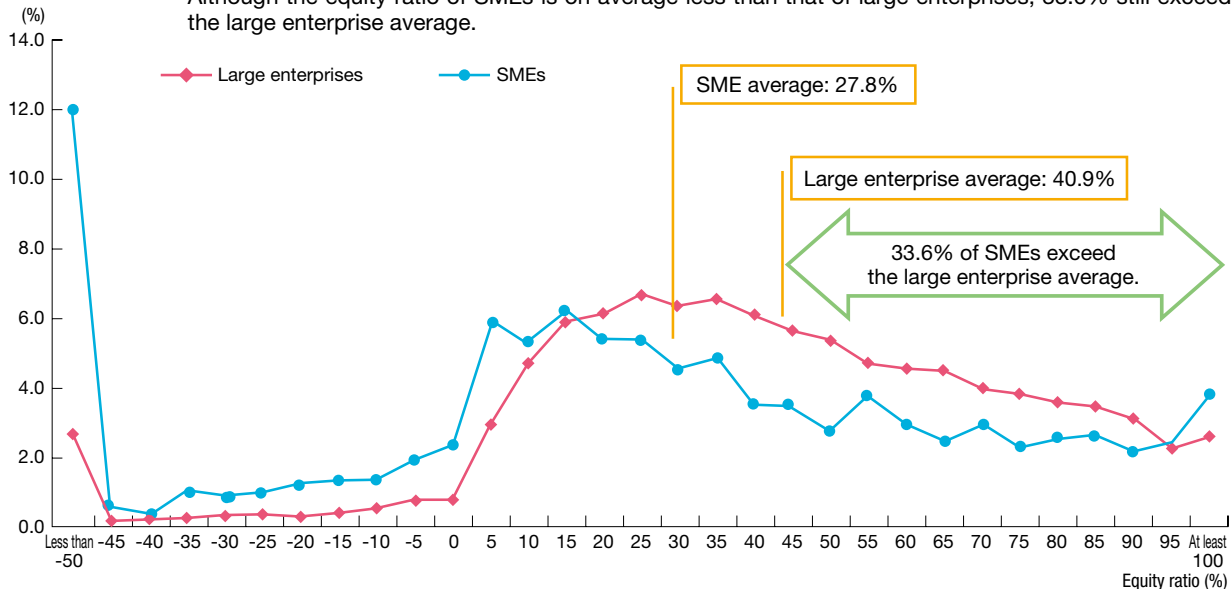
- Notes:
1. Values on the horizontal axis indicate the range from the neighboring value on the left up to but not including the value shown (e.g., “4” indicates the range from 2% to less than 4%).
  2. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

Lastly, we consider the equity ratio of SMEs. The average for SMEs is 27.8%, which is less than the large enterprise average of 40.9%. Moreover, the tendency is for a higher proportion of SMEs to have an equity ratio of less than 15%, and a higher proportion of large enterprises

to have a ratio of at least 15%. However, 33.6% of SMEs exceed the average for large enterprises, and the proportion of SMEs is higher than that of large enterprises for an equity ratio of between 95% and 100% (Fig. 2-1-10).

**Fig. 2-1-10 Equity ratio distributions**

Although the equity ratio of SMEs is on average less than that of large enterprises, 33.6% still exceed the large enterprise average.



Source: Recompiled from MOF, 2009 *Financial Statements Statistics of Corporations by Industry*.

- Notes:
1. Values on the horizontal axis indicate the range from the neighboring value on the left up to but not including the value shown (e.g., “30” indicates the range from 25% to less than 30%).
  2. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

● **Characteristics of SMEs**

Above, we examined numbers of enterprises and their workers broken down by industry and municipality population size, and surveyed the distributions of SMEs’ labor productivity, capital-labor ratios, ratios of ordinary profit to sales, and equity ratios. These various statistics and indices showed that although SMEs on average fall below large enterprises, some exceed the large enterprise average.

We look next at SMEs’ perceptions of themselves as SMEs and at how their perceptions differ from those of

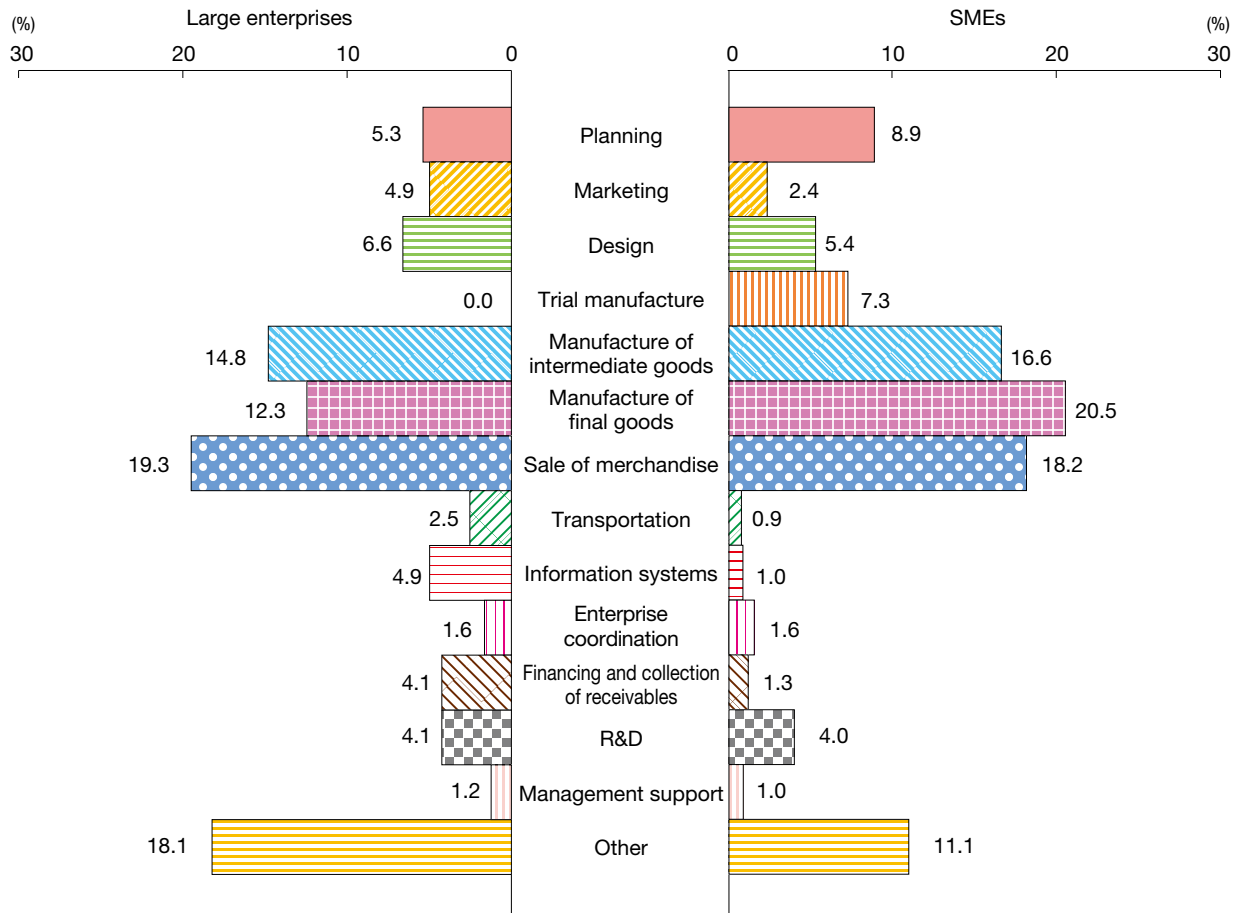
large enterprises. Below, we identify what distinguishes SMEs’ perceptions of themselves using the results of the *Questionnaire Survey of Enterprises Supporting Industry and Communities*.<sup>2)</sup>

We begin with SMEs’ perceptions of their own strengths. Fig. 2-1-11 shows areas of business and the proportions of enterprises that regard them as strengths. It can be seen from this that higher proportions of SMEs than large enterprises regard “planning,” “trial manufacture,” and “manufacture of final goods” as among their strengths.

2) This was commissioned by the SME Agency and conducted by Mitsubishi Research Institute, Inc. (MRI). It consisted of a questionnaire survey of 26,000 enterprises, and was conducted in November 2010. The response rate was 13.3%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

**Fig. 2-1-11 Areas of business regarded as own strengths**

SMEs are more likely than large enterprises to regard “planning,” “trial manufacture,” and “manufacture of final goods” as strengths.



Source: Mitsubishi Research Institute, Inc. (MRI), *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

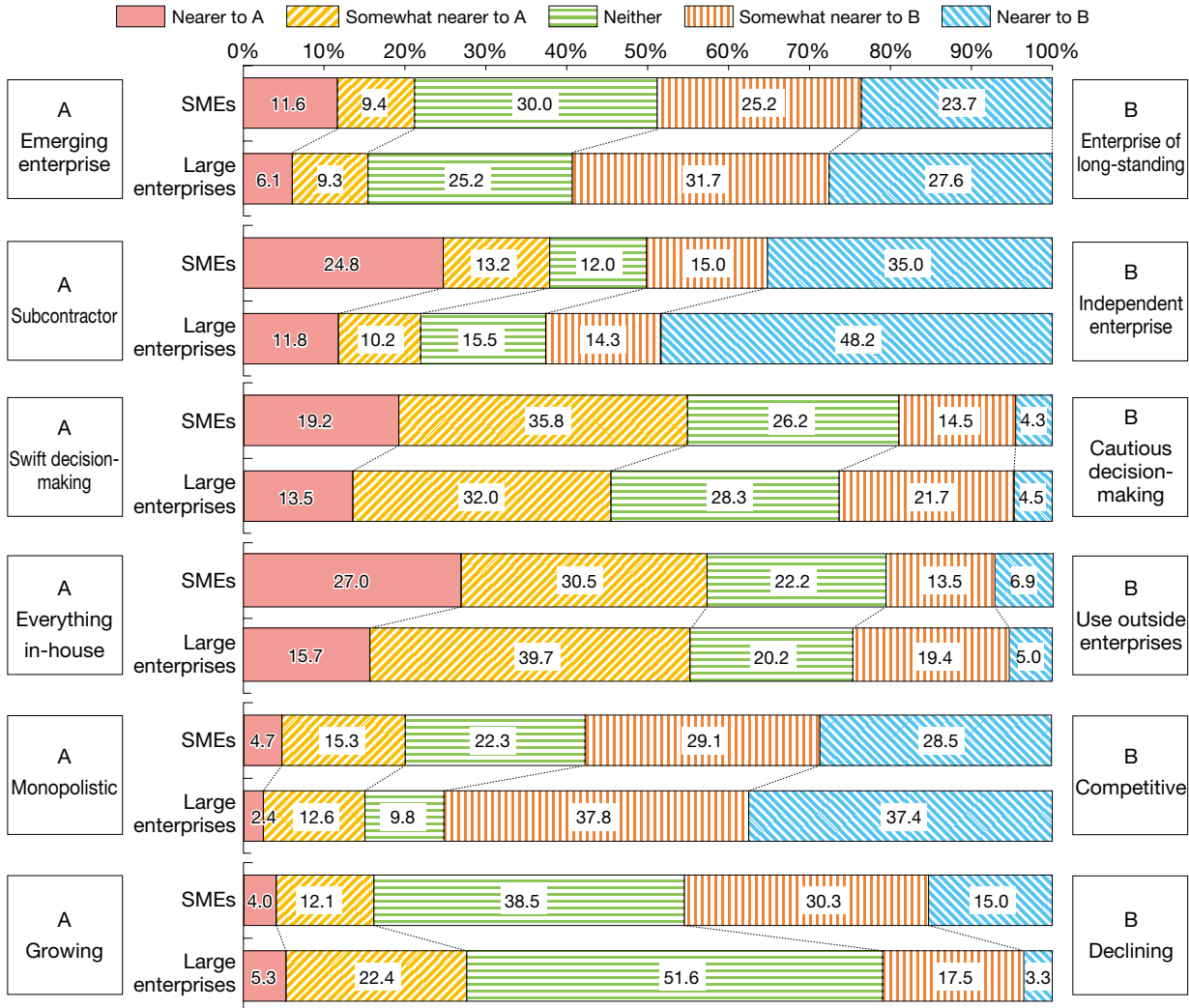
Next, based on the questionnaire responses, we consider the characteristics that SMEs and large enterprises regard themselves as having, and the main markets in which they do business (Fig. 2-1-12). Beginning with own character, higher proportions of SMEs than large enterprises see themselves more as an “emerging enterprise” than an “enterprise of long-standing,” and more as a “subcontractor” than as an “independent enterprise.” Regarding their

management, higher proportions of SMEs see themselves as having “swift decision-making” as opposed to “cautious decision-making,” and as doing “everything in-house” rather than “use outside enterprises.” On the character of their markets, SMEs are more likely than large enterprises to describe themselves as doing business in “competitive” and “growing” markets.



**Fig. 2-1-12 Own characteristics and main markets of activity**

Higher proportions of SMEs than large enterprises chose “emerging enterprise” over “enterprise of long-standing” and “subcontractor” over “independent enterprise” to describe their character, “swift decision-making” over “cautious decision-making” to describe their management, and “competitive” and “growing” to describe the character of their markets.



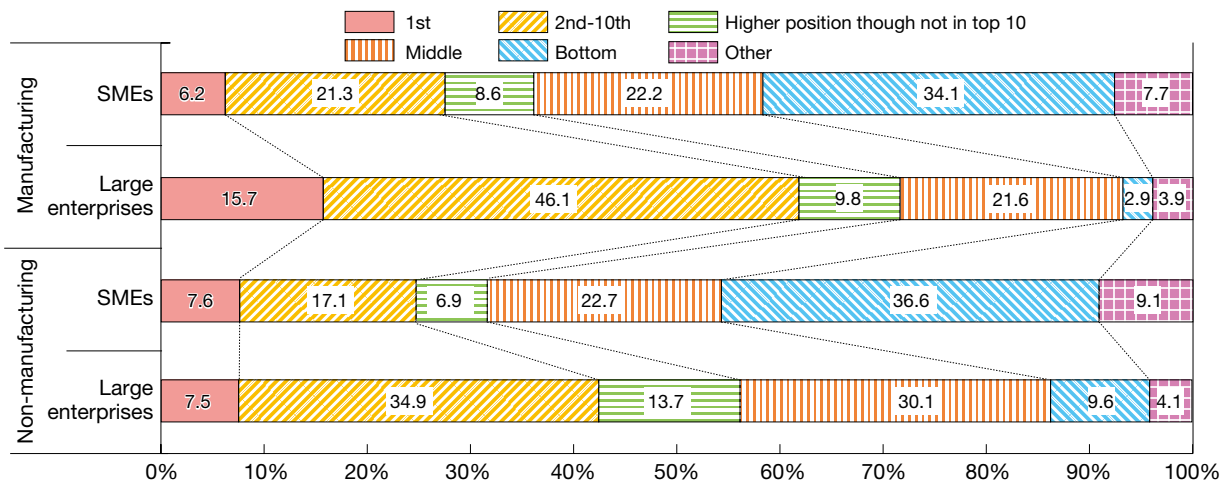
Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

The question we consider next is: How do SMEs see themselves as positioned in these markets? Fig. 2-1-13 depicts SMEs’ and large enterprises’ perceived positions in their own markets. In both manufacturing and non-manufacturing, large enterprises tend to see themselves as

being either in “top 10” or “higher position though not in top 10.” By comparison, 6.2% of SMEs in manufacturing and 7.6% in non-manufacturing say that they are the top enterprise in their main market of activity.

**Fig. 2-1-13 Position in own market**

6.2% of SMEs in manufacturing and 7.6% in non-manufacturing say that they are the top enterprise in their main market of activity.



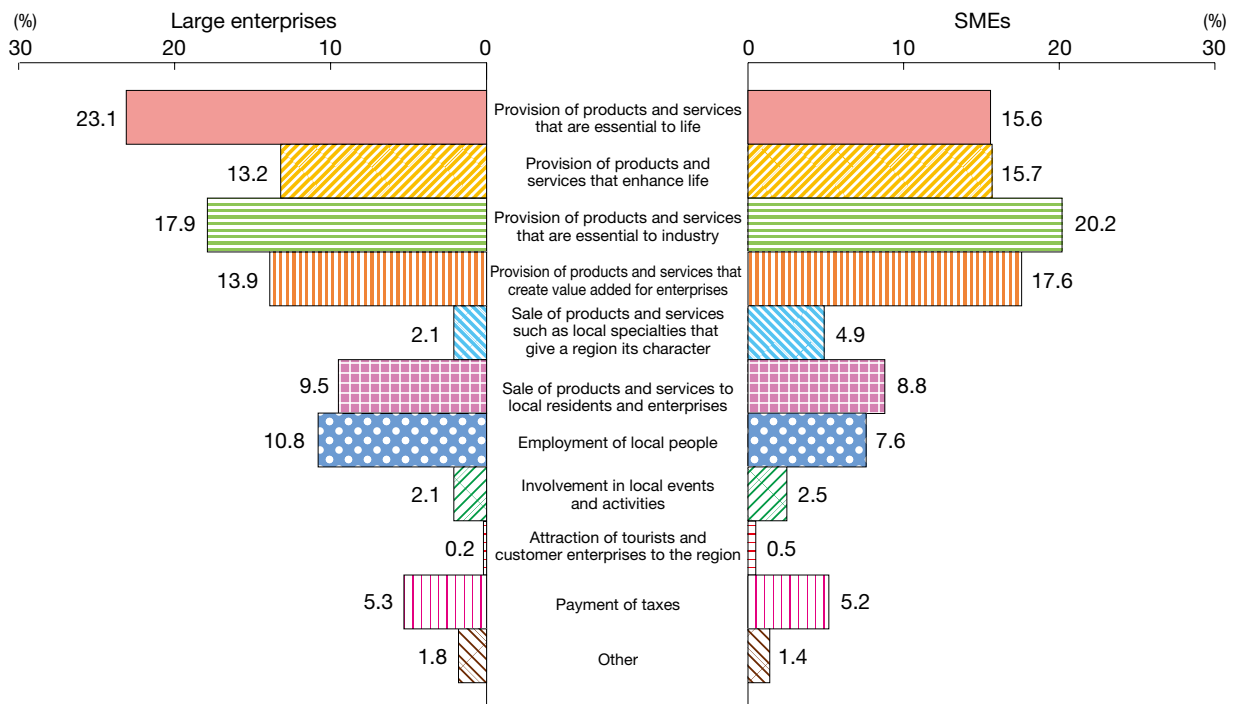
Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

Fig. 2-1-14 shows enterprises' perceptions of their contributions to the economy and society. While a high proportion of large enterprises say "provision of products and services that are essential to life," the commonest response from SMEs is "provision of products and services that are essential to industry."

Fig. 2-1-36, large enterprises' responses tend to reflect an awareness of consumers as many sell and supply goods and services to consumers, while SMEs are more likely to exhibit an awareness of enterprises as many sell or provide goods and services to them.

**Fig. 2-1-14 Own contributions to economy and society**

SMEs' commonest response is "provision of products and services that are essential to industry."



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

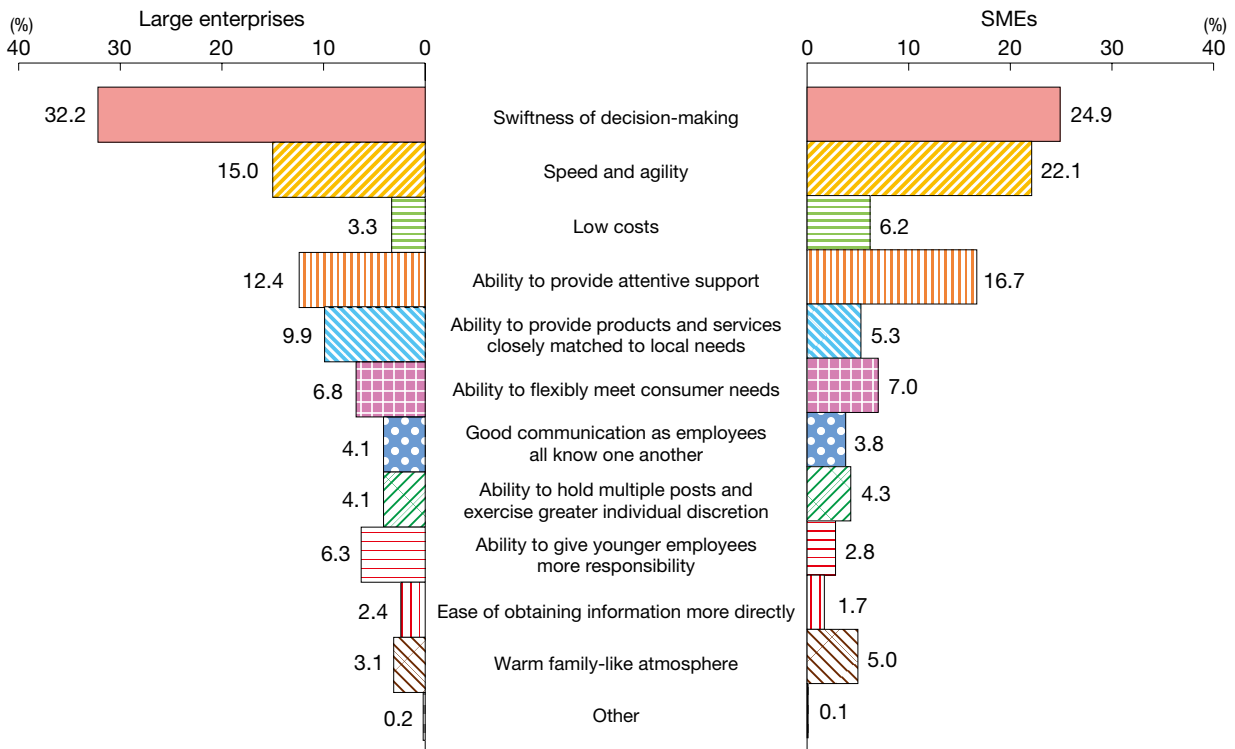
Note: The results were calculated by scoring in order of ranking: 3 points for first, 2 points for second, and 1 point for third.

We next consider what SMEs and large enterprises feel to be the advantages and disadvantages of being an SME. Looking firstly at Fig. 2-1-15, we find that high proportions of both large enterprises and SMEs see “swiftness of decision-making,” “speed and agility” and “ability to provide attentive support” as advantages of

being an SME. Higher proportions of SMEs than large enterprises perceive “speed and agility” and “ability to provide attentive support” as advantages, indicating a greater awareness of these advantages among SMEs than among large enterprises.

**Fig. 2-1-15 Advantages of being an SME**

High proportions of both large enterprises and SMEs identify “swiftness of decision-making,” “speed and agility,” and “ability to provide attentive support” as advantages.



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

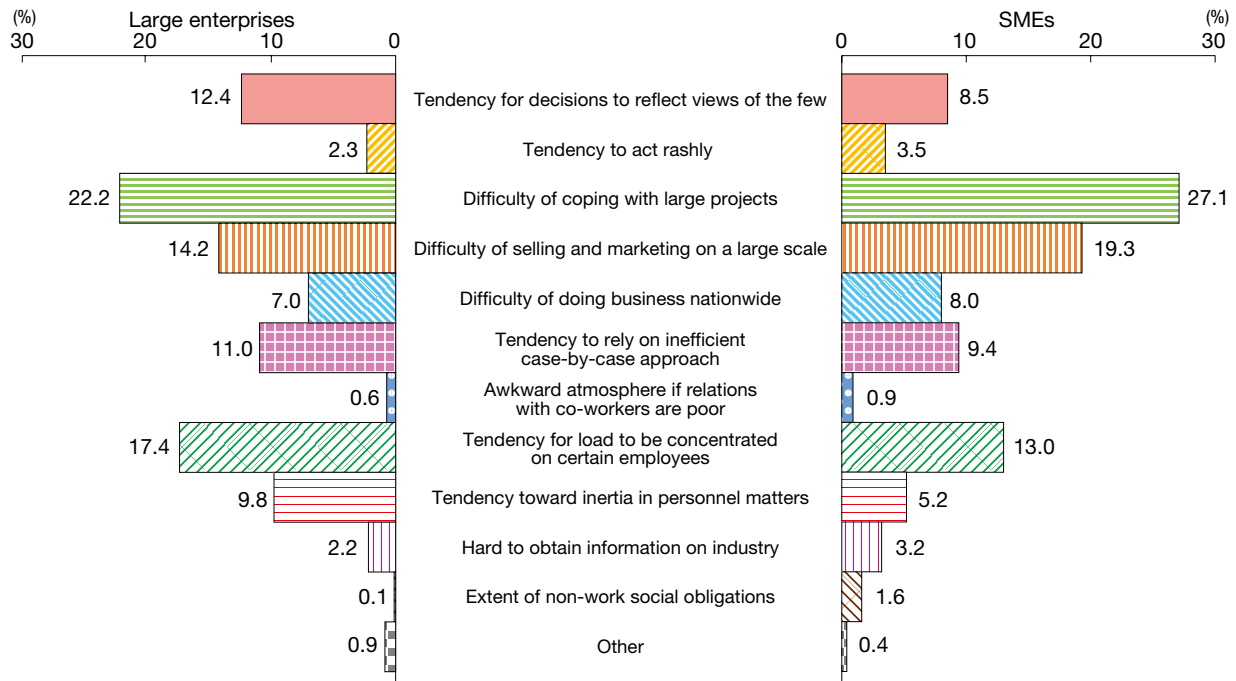
Note: The results were calculated by scoring in order of ranking: 3 points for first, 2 points for second, and 1 point for third.

Turning now to consider the disadvantages of being an SME, shown in Fig. 2-1-16, we find that high proportions of both large enterprises and SMEs cite “difficulty of coping with large projects,” “difficulty of selling and marketing on a large scale,” and “tendency for load to be concentrated on certain employees.” Further, higher proportions of SMEs

than large enterprises perceive “difficulty of coping with large projects” and “difficulty of selling and marketing on a large scale” as disadvantages. This suggests that these difficulties are experienced as disadvantages more than is recognized by large enterprises.

**Fig. 2-1-16 Disadvantages of being an SME**

High proportions of both large enterprises and SMEs cite “difficulty of coping with large projects,” “difficulty of selling and marketing on a large scale,” and “tendency for load to be concentrated on certain employees.”



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

Note: The results were calculated by scoring in order of ranking: 3 points for first, 2 points for second, and 1 point for third.

Although classed together, SMEs' actual circumstances in fact vary considerably depending on factors such as industry and size. Overall, however, we may conclude from the above that SMEs see their small size as being an advantage in terms of enabling swifter decision-

making and speed and agility in business. At the same time, however, they feel that their size makes it difficult to cope with large projects and to sell and market on a large scale.

**[2] Changes to date**

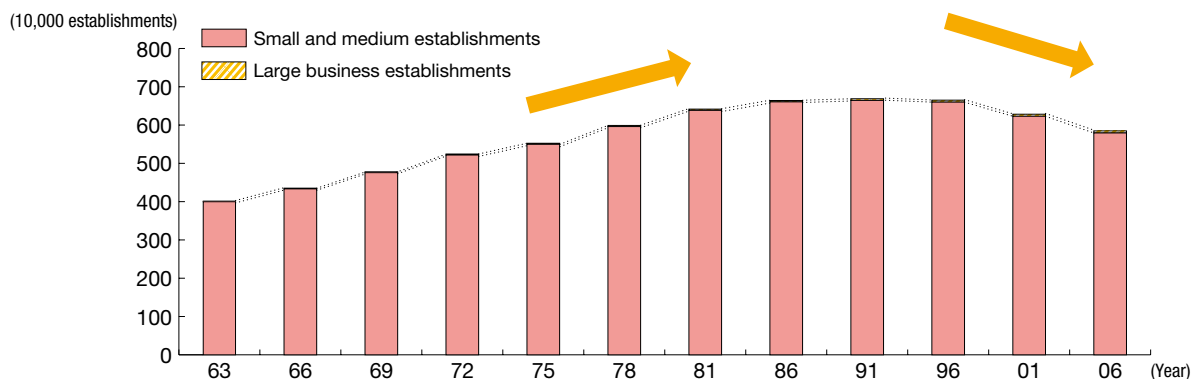
**● Changes in numbers of enterprises and workers**

Having described the current state of SMEs in Japan in the preceding subsection, we now analyze how SMEs have

changed to date. Fig. 2-1-17 depicts trends in numbers of business establishments by size. Apparent from this is that the number of small and medium establishments increased until 1991. It then went into decline, falling by 13% between 1991 and 2006.

**Fig. 2-1-17 Numbers of business establishments by size**

The number of small and medium establishments continued to increase until 1991, then went into decline and fell 13% between 1991 and 2006.



Sources: MIC, *Japan Statistical Yearbook* and *Establishment and Enterprise Census of Japan*.

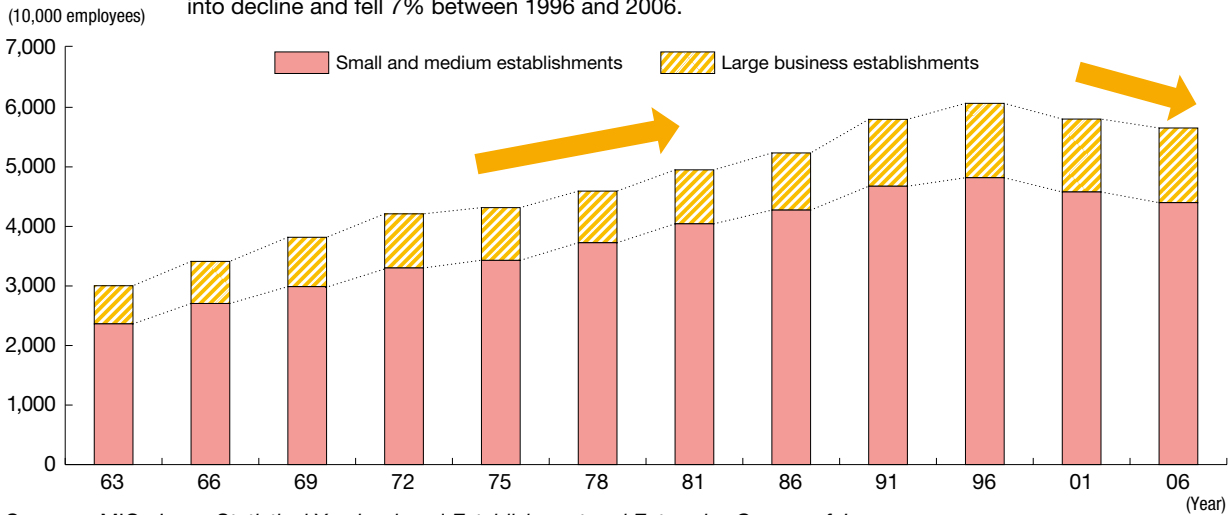
Notes: 1. Small and medium establishments are establishments with 299 or fewer workers (99 or fewer in the wholesale trade and services, and 49 or fewer in the case of eating and drinking places).  
2. Non-primary industry (not including “government service”).

Furthermore, the number of workers of small and medium establishments continued to increase until 1996,

after which it began to decrease and declined 7% between 1996 and 2006 (Fig. 2-1-18).

**Fig. 2-1-18 Numbers of workers of business establishments by size**

The number of workers of small and medium establishments continued to increase until 1996, then went into decline and fell 7% between 1996 and 2006.



Sources: MIC, *Japan Statistical Yearbook* and *Establishment and Enterprise Census of Japan*.

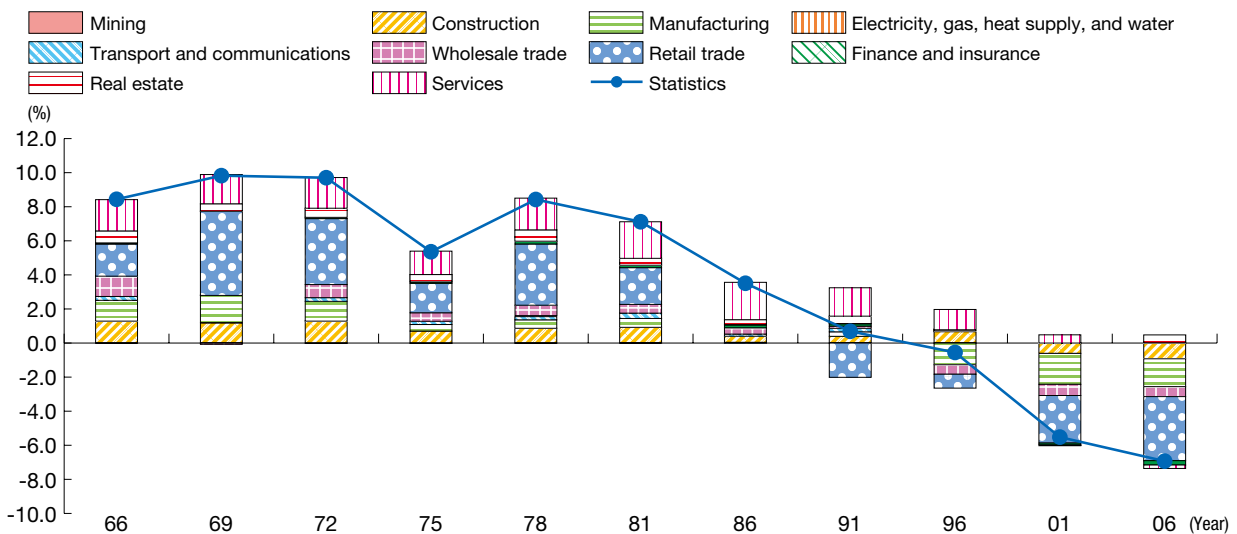
- Notes: 1. Small and medium establishments are establishments with 299 or fewer workers (99 or fewer in the wholesale trade and services, and 49 or fewer in the case of eating and drinking places).  
 2. Non-primary industry (not including "government service").

Which then were the industries that contributed to these changes in numbers of SMEs and their workers? Fig. 2-1-19 shows the decomposition by industry of the changes in number of business establishments. This reveals that growth from the 1960s to the 1980s was accounted for

mostly by the retail trade, services, manufacturing, and construction. From the 2000s, however, there have been marked declines in the number of business establishments in the retail trade and manufacturing.

**Fig. 2-1-19 Number of small and medium establishments (contribution by industry)**

From the 2000s, there have been marked declines in the number of business establishments in the retail trade and manufacturing.



Sources: MIC, *Japan Statistical Yearbook* and *Establishment and Enterprise Census of Japan*.

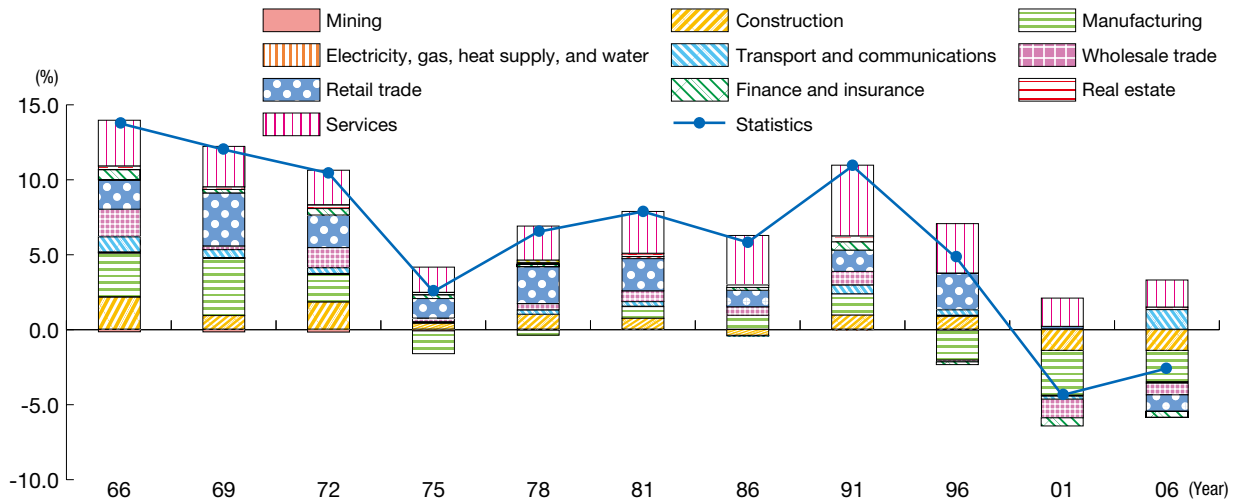
- Notes: 1. Small and medium establishments are establishments with 299 or fewer workers (99 or fewer in the wholesale trade and services, and 49 or fewer in the case of eating and drinking places).  
 2. Non-primary industry (not including "government service").

The decomposition by industry of the changes in number of workers shown in Fig. 2-1-20 reveals that worker growth from the 1960s to 1980s was similarly accounted for in large part by the retail trade, services,

manufacturing, and construction. From the 2000s, there have been marked declines in the number of workers in the retail trade and manufacturing.

**Fig. 2-1-20 Number of workers of small and medium business establishments (contribution by industry)**

From the 2000s, there have been marked declines in the number of workers in the retail trade and manufacturing.



Sources: MIC, *Japan Statistical Yearbook* and *Establishment and Enterprise Census of Japan*.

- Notes:
1. Small and medium establishments are establishments with 299 or fewer workers (99 or fewer in the wholesale trade and services, and 49 or fewer in the case of eating and drinking places).
  2. Non-primary industry (not including "government service").

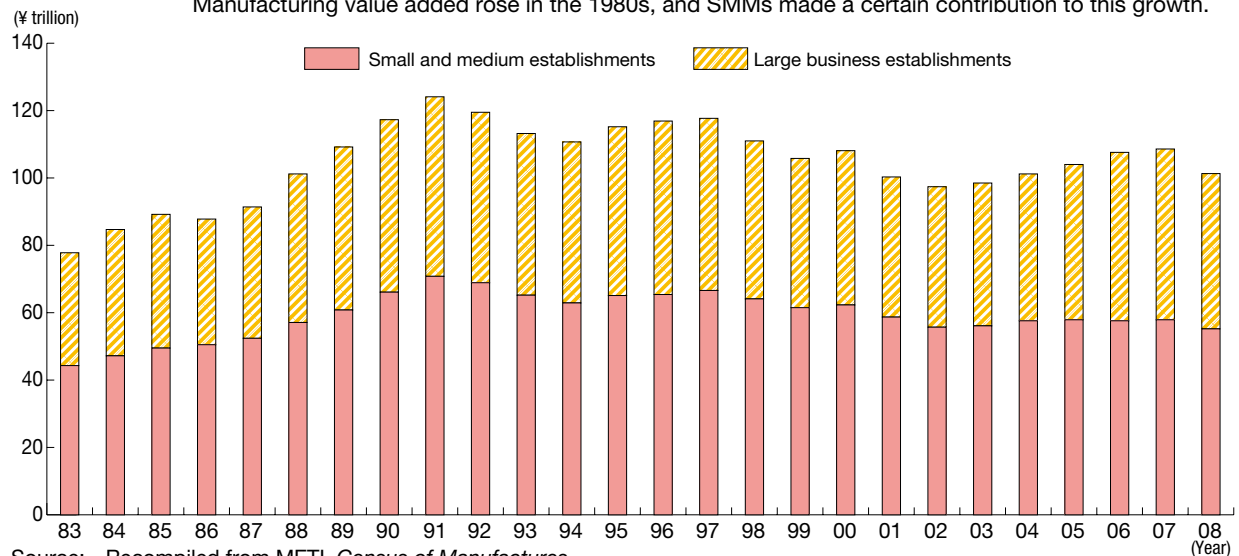
● **Change in value added in manufacturing**

Fig. 2-1-21 shows value added in manufacturing by size, from which it can be seen that although the amount rose in the 1980s and small and medium manufacturers

(SMMs) made a certain contribution to this growth, the value added of SMMs has followed a downward trend since the late 1990s.

**Fig. 2-1-21 Value added in manufacturing by size**

Manufacturing value added rose in the 1980s, and SMMs made a certain contribution to this growth.



Source: Recompiled from METI, *Census of Manufactures*.

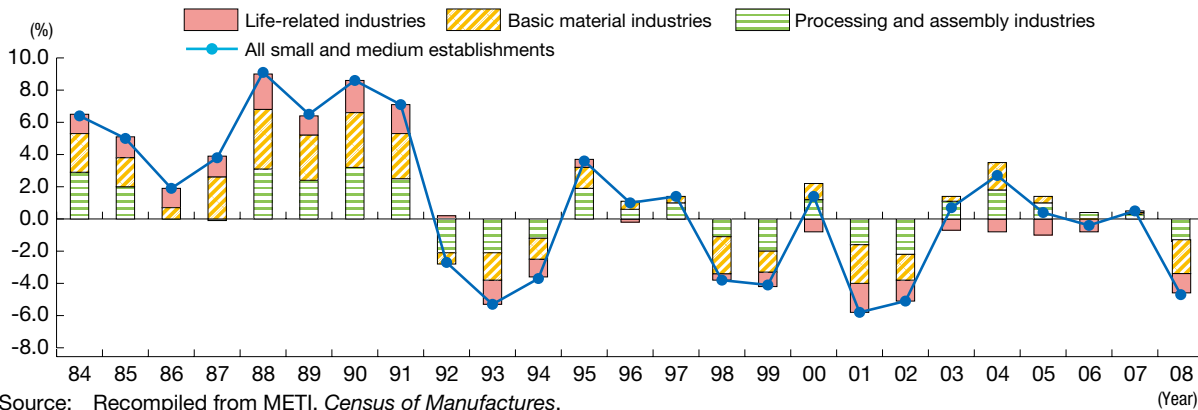
- Notes:
1. Small and medium establishments are business establishments with 4-300 workers.
  2. Gross value added is used for business establishments with 4-29 workers.
  3. These figures exclude "newspapers" and "publishing," which were included in manufacturing until 2001.

We look next at the decomposition by industry of the rate of growth in the value added of small and medium manufacturing establishments (Fig. 2-1-22). In the 1980s, value added in manufacturing grew continuously in all industries, and SMMs made a certain contribution to this

growth. Since the 1990s, the rate of growth in the value added of small and medium manufacturers has gone into decline in all industries in some years, and the previous upward trend has ceased.

**Fig. 2-1-22 Rate of growth in value added of small and medium manufacturing establishments (contribution by industry)**

Since the 1990s, the rate of growth in the value added of small and medium manufacturers in all industries went into decline in some years, and the previous upward trend has ceased.



Source: Recompiled from METI, *Census of Manufactures*.

- Notes:
1. Small and medium establishments are business establishments with 4-300 workers.
  2. Gross value added is used for business establishments with 4-29 workers.
  3. These figures exclude “newspapers” and “publishing,” which were included in manufacturing until 2001.
  4. “Processing and assembly industries” here consists of the following categories of manufacturing classified according to the Japan Standard Industry Classification: general-purpose machinery; production machinery; business-oriented machinery; electronic parts, devices, and electronic circuits; electrical machinery, equipment and supplies; information and communications equipment and supplies; transportation equipment.
  5. “Basic material industries” here consists of the following categories of manufacturing classified according to the Japan Standards Industry Classification: ceramics, stone and clay products; iron and steel; non-ferrous metals; lumber and wood products; pulp, paper, and paper products; chemicals; petroleum and coal products; plastic products; rubber products.
  6. “Life-related industries” here consists of the following categories of manufacturing classified according to the Japan Standard Industry Classification: foodstuffs; beverages, tobacco and feed; textiles; furniture and fixtures; leather tanning, leather products, and fur skins; printing and allied industries; other manufacturing.

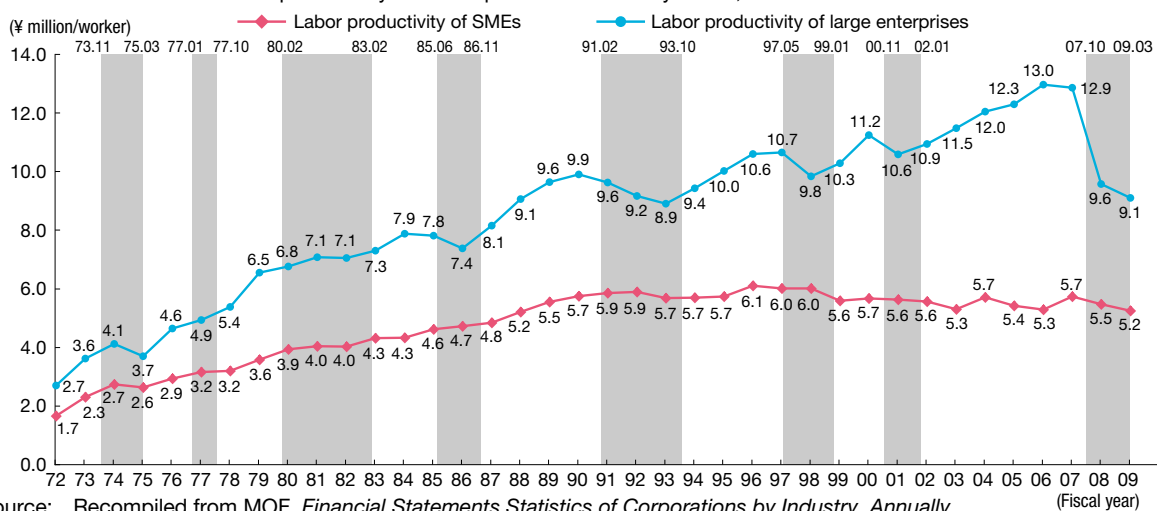
**● Various indices**

Next, we consider the labor productivity, capital-labor ratios, ratios of ordinary profit to sales, and equity ratios of large enterprises and SMEs. We begin with trends in labor

productivity, shown in Fig. 2-1-23. From this it can be seen that while the labor productivity of SMEs followed an upward trend up until the early 1990s, this leveled off from the latter half of the decade.

**Fig. 2-1-23 Labor productivity (manufacturing)**

SMEs’ labor productivity trended upward until the early 1990s, and leveled off from the latter half of the decade.



Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

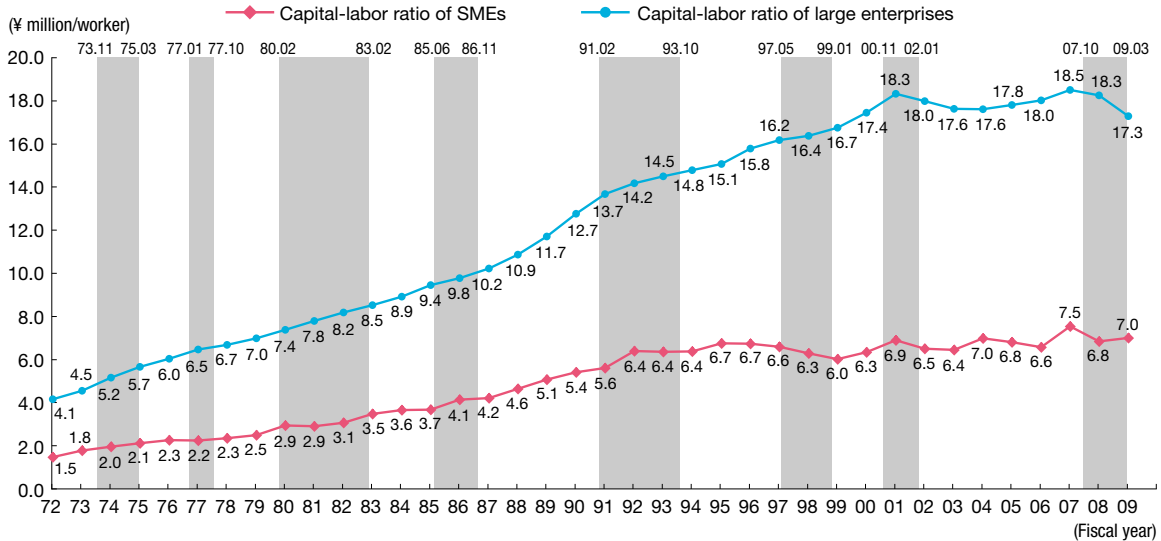
- Notes:
1. Labor productivity = value added / number of workers
  2. Large enterprises are enterprises with capital of ¥100 million or more and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

Similarly, the capital-labor ratio of SMEs followed an upward trend until the early 1990s, and leveled off from

the latter half of the decade (Fig. 2-1-24).

**Fig. 2-1-24 Capital-labor ratio (manufacturing)**

SMEs' labor productivity trended upward until the early 1990s, and leveled off from the latter half of the decade.



Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

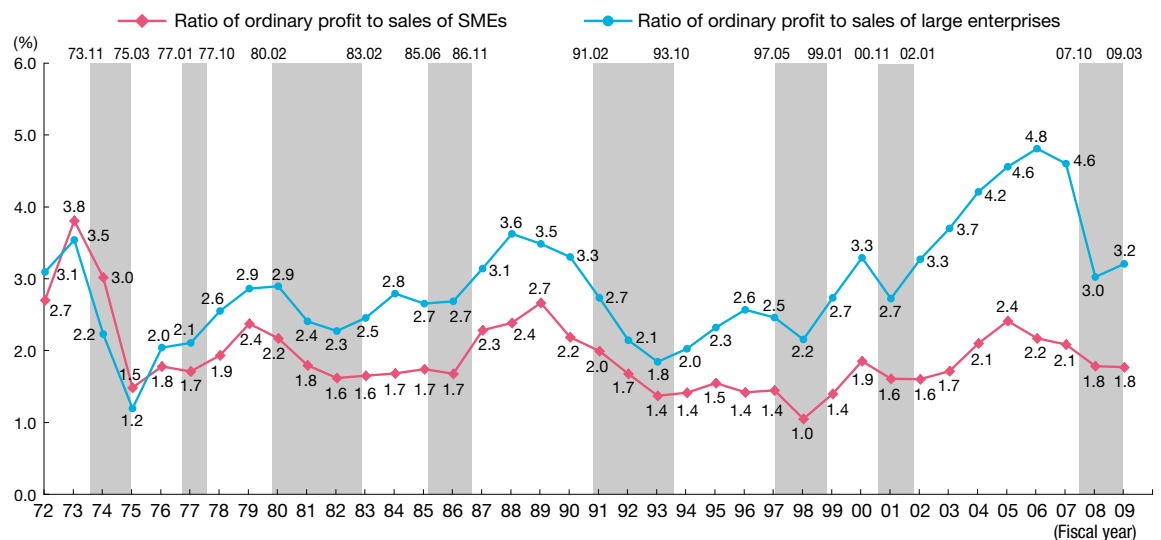
- Notes:
1. Capital-labor ratio = tangible fixed assets / number of workers
  2. Large enterprises are enterprises with capital of ¥100 million or more and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

Fig. 2-1-25 shows trends in the ratio of ordinary profit to sales. Over the long term, SMEs' ratio of ordinary profit

to sales has remained flat, although it has generally risen and fallen in line with movements in the economy.

**Fig. 2-1-25 Ratio of ordinary profit to sales**

Over the long term, SMEs' ratio of ordinary profit to sales has remained flat, but it has generally risen and fallen in line with movements in the economy.



Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

- Notes:
1. Ratio of ordinary profit to sales = ordinary profit / sales
  2. All industries here excludes agriculture, forestry, and fisheries.
  3. Large enterprises are enterprises with capital of ¥100 million or more and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

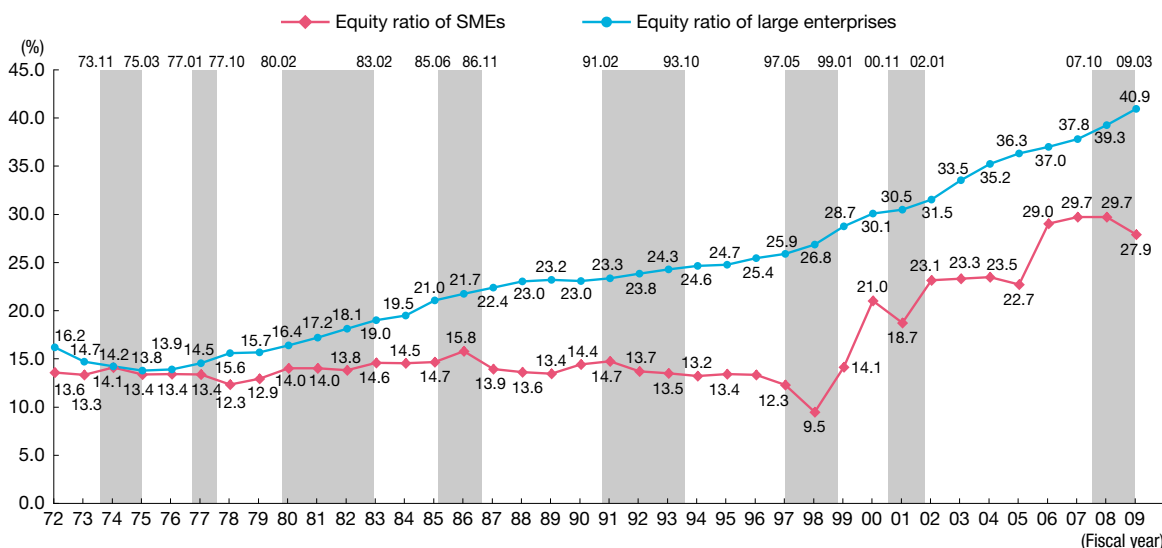


Likewise, the equity ratio of SMEs has followed an upward trend since the 2000s, notwithstanding a decline

at the beginning of the economic downturn (Fig. 2-1-26).

**Fig. 2-1-26 Equity ratio**

The SME equity ratio has followed an upward trend since the 2000s, notwithstanding a decline at the beginning of the economic downturn.



Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

- Notes:
1. Equity ratio = net asset (not including share options) / total capital
  2. All industries here excludes agriculture, forestry, and fisheries.
  3. Large enterprises are enterprises with capital of ¥100 million or more and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

Insofar as labor productivity, capital-labor ratios, ratios of ordinary profit to sales, and equity ratio are concerned, there appears to have been no significant amelioration of the average gap between SMEs and large enterprises.<sup>3)</sup> Nevertheless, labor productivity, the capital-labor ratio, and the equity ratio are rising in the long term and, as Figs. 2-1-7 to 2-1-10 illustrated, these indices' distributions indicate there to be some SMEs that exceed the averages

for large enterprises.

Behind the high growth achieved by the Japanese economy since the Second World War has lain the development of SMEs as described in this section, and it is these SMEs that have made the Japanese economy and our quality of life what they are today.<sup>4)</sup> In the following two sections, we examine in closer detail the current state of SMEs as the bedrock of both industry and communities.

3) The indices shown in Figs. 2-2-7 to 2-2-10 were calculated using the indices for large enterprises and SMEs as defined in each year concerned. It should therefore be noted that an enterprise that is currently an SME, for example, may in the future cease to be an SME and be included during this period in the indices for large enterprises. Regarding the distributions of labor productivity, etc. in 1985, 1995, and 2005, see Appended Note 2-1-2.

4) The government revised the Small and Medium Enterprise Basic Act in 1999 to shift focus away from rectifying the two-tier structure formed by large enterprises and SMEs in order to reduce the disparities existing between enterprises of different sizes, and more toward an SME policy directed at assisting the highly motivated SMEs that function as the bedrock of the Japanese economy. See Column 2-1-1.

## Case 2-1-1

### A 300 year old company that continues growing by changing business with the changing times

Ohtsuka Sangyo Material Co., Ltd. produces interior housing materials and automobile components in Nagahama City, Shiga Prefecture, with 117 employees and capital of ¥20 million.

The firm was established in the early 1700s as a mosquito net manufacturer. From the Taisho period (1912-1926) through the end of the Second World War, when many materials were in short supply, Ohtsuka Sangyo Material maintained research and development efforts under a harsh environment and advanced its business in line with the changing times, developing and producing silk substitutes for woolen goods and floss silk mass production technologies.

The company continued producing mosquito nets for some time after the war, but the domestic housing business changed from the mid-1950s. With the spread of Western-style construction, it became clear that the demand for mosquito nets would diminish. Under these circumstances, Ohtsuka Sangyo Material searched for new businesses making use of its technologies. The company developed wallpaper using mosquito net fabric, and exported this new product to many Western countries.

In the mid-1960s, with the spread of automobiles, Ohtsuka Sangyo Material developed polyethylene film yarn textiles for car seat spring padding, and subsequently the first urethane integral foam headrest<sup>5)</sup> together with a leading automaker.

Ohtsuka Sangyo Material did not neglect research and development or new product development, even when sales of their leading products were down as conditions changed. The company always grasped customer and consumer needs, and changed their business from producing mosquito nets to developing and manufacturing wallpaper and automobile interior materials in response to the changing times. Ohtsuka Sangyo Material is carving out new history even today as a long-standing firm with a history of 300 years.



Ohtsuka Sangyo Material's no-sew car seat fabric.

## Case 2-1-2

### Japan's leading printer of sake labels operating for nearly 100 years by always innovating ahead of the competition

Takakuwa Art Printing Co., Ltd. is a sake label printing company in Kanazawa City, Ishikawa Prefecture with 290 employees and capital of ¥168 million.

The company was founded in 1912 as a printer of business cards and forms. After the Second World War, they began using color printing, which was still rare at that time, and started printing color labels for local sake breweries. Takakuwa Art Printing had confidence in the potential of sake label printing, which requires refined, specialized technologies for multi-color printing. They began full-scale marketing to sake breweries nationwide, and gained orders.

In the mid-1950s, the company introduced the first photoengraved<sup>6)</sup> sake labels in Japan, for differentiation from competitors. The production and consumption of sake in Japan peaked in the early 1970s, and quality rural sake brands started to draw attention from the late 1970s. To promote distinctive local sake brands, Takakuwa Art Printing went beyond just printing sake labels. They began promoting sake sales by improving planning and design, and providing integrated planning and printing of bottle wrapping paper, cartons, leaflets, pamphlets and other PR materials.

As the production and consumption of sake declined, the company began to apply their accumulated know-how to other fields. They launched a creative business in 1997 for integrated PR services, and advanced into Web and video contents and other non-printing fields, developing into a comprehensive product PR and packaging company.

Through these efforts, Takakuwa Art Printing has grown into a planning company covering everything from sake bottle manufacturing to sales. They are the top sake label printing company in Japan with an approximately 30% market share, and have recently begun printing labels for domestic wines and *shochu* distilled beverages.



Products with sake labels, wrapping paper and packaging planned, designed and printed by Takakuwa Art Printing.

5) Car headrests produced by injecting urethane foam into the headrest cover so the foam and the cover are integrated.

6) Photoengraving is a method of engraving printing plates using photographic processing techniques.

## Column 2-1-1 The history of Japan's SME policies

### (1) Pre-war period

During the Meiji period (1868-1912), the government implemented an industrial policy of promoting the transplant of modern European industries. Meanwhile, in response to the impoverishment and breakup of traditional industries (cotton, silk, ceramics, wood processing, etc.), the government provided technical improvement guidance (the dispatch of engineers, etc.) to the main industries in 1884, and instituted product testing by establishing trade associations. The introduction of machinery subsequently progressed at SMEs along with the advance of Japanese capitalism, but SMEs fell into financial difficulties because of excess competition based on low wages, exploitation by large enterprises with market oligopolies, exclusion from the modern financial system and other issues.

To address this, the government devised SME policy from the standpoint of fostering the growth of export industries and import-substitution industries and maintaining social order. The specific measures included the provision of technical guidance by industrial laboratories, the increase of production capacity by organizing SMEs, prevention of the overproduction of inferior goods and sales below costs, the establishment of the Shoko Chukin Bank (1936), and the establishment of a credit guarantee system in some prefectures (Tokyo in 1937). Japan then entered a wartime economy, and SMEs were excluded from industrial protection and development policies.

### (2) Post-war period (1945~ )

While many SMEs were founded amid the confusion immediately after the end of the war, SMEs faced major difficulties because of shortages of production materials, funds, technologies and business management know-how, excessive competition from reckless investment and production, and pernicious inflation. On the other hand, the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade ("Antimonopoly Act") was enacted in 1947 by the General Headquarters (GHQ), the Supreme Commander for the Allied Powers for the dissolution of the *zaibatsu* industrial and financial conglomerates to regulate excessive concentration of economic power, and the privatization of the economy proceeded. At the same time, the Allies also focused on the development of sound SMEs, to foster the strength to check excessive concentration of economic power. The Small and Medium Enterprise Agency was established in 1948, initiating full-scale post-war SME policy. During this period, the government prepared basic tools for SME policy including systems for finance, organization, and diagnosis and guidance. In finance, in addition to the Shoko Chukin Bank established before the war, the People's Finance Corporation was founded in 1949 and the Japan Finance Corporation for Small and Medium Enterprises was founded in 1953. For credit enhancement, the Small and Medium-sized Enterprise Credit Insurance Act and the Credit Guarantee Association Act were enacted in 1950 and 1953, and the system of credit guarantee associations in every prefecture was completed. The organization of SMEs also proceeded with the passage of the Chambers of Commerce and Industry Act and of the Small and Medium-sized Enterprise Cooperatives Act. The government established a system for diagnosing SMEs and opened SME consultation centers. The government also instituted the "blue return" business income reporting system to improve financial accounting know-how.

### (3) High growth period and stable growth period (1955~ )

Japan's economic activities recovered the pre-war level 10 years after the Second World War. Then with the advent of the Cold War, there was a major policy shift from privatization of the economy to emphasizing economic recovery, and policies to promote competition receded. The Act on Temporary Measures for the Promotion of the Machinery Industry was enacted in 1956 and other policies were established for the industrial promotion of individual industries. These resulted in a greater gap in development speed between large enterprises and SMEs. The differences in productivity, wages, technologies, funds procurement and other areas became more pronounced. SMEs were integrated into *keiretsu* corporate groupings with large corporations at that top and the SMEs as subcontractors, and problems emerged from the dual structure between large corporations and SMEs. Amid these developments, the passage of the Act on the Organization of Small and Medium-sized Enterprise Association (SME Association Act) in 1957 and the Act on the Organization of Commerce and Industry Associations (Commerce and Industry Association Act) in 1960 strengthened SME organization, as well as the system for SME diagnosis and guidance.

As the country opened up to more international trade and foreign investment, the government recognized the need to upgrade Japan's industrial structure, strengthen the international competitiveness of Japanese industries, and realize balanced development of the national economy. With this understanding, the Small and Medium-sized Enterprise Basic Act was enacted in 1963 with the goal of rectifying the gaps between SMEs and large enterprises.

Because the focus in dissolving the dual structure was on improving the productivity of SMEs, which were suffering a widening productivity gap versus large enterprises, the policy emphasis shifted to modernizing and improving the level of SMEs with the passage of the Small and Medium-sized Enterprise Modernization Promotion Act in 1963. As part of measures taken to rectify unfair conditions, the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (Subcontractor Payment Act) enacted in 1956 rectified the unfair trading conditions that had emerged with the establishment of the subcontracting structure, and the Act on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium-sized Enterprises (Public Demand Act) enacted in 1966 promoted SME contracts in government procurement. The Japan Small Business Promotion Corporation was established in 1967 to supply funds to support the modernization and upgrading of SMEs and personnel training. In 1973 the government also established the small-lot financing system (*Marukei* Loans) for small-scale enterprises. Other efforts included the establishment of the Small and Medium Business Investment & Consultation Company in 1963 for more stability in SME equity capital, and the enactment of the Small Enterprise Mutual Relief Projects Act in 1965, when bankruptcies rapidly increased, introducing a system for the accumulation of the funds required when small enterprises close down.

Next, during the stable growth period the emphasis shifted from equipment to knowledge, and measures were required to upgrade technology, personnel, information and other intangible management resources. On the other hand, there were no clear targets for SME efforts, and it was sometimes difficult to improve performance at the trade associations. In human resources development, the Institute for Small Business Management and Technology (the present SME universities) was established in 1980, creating a system for full-scale training. During this period, with the change in the business environment following the first oil crisis of 1973, the government recognized the importance of SME business conversion [to different fields], and The Act on Temporary Measures for Business Conversion of Small and Medium-sized Enterprises (SME Business Conversion Act) was enacted in 1976.

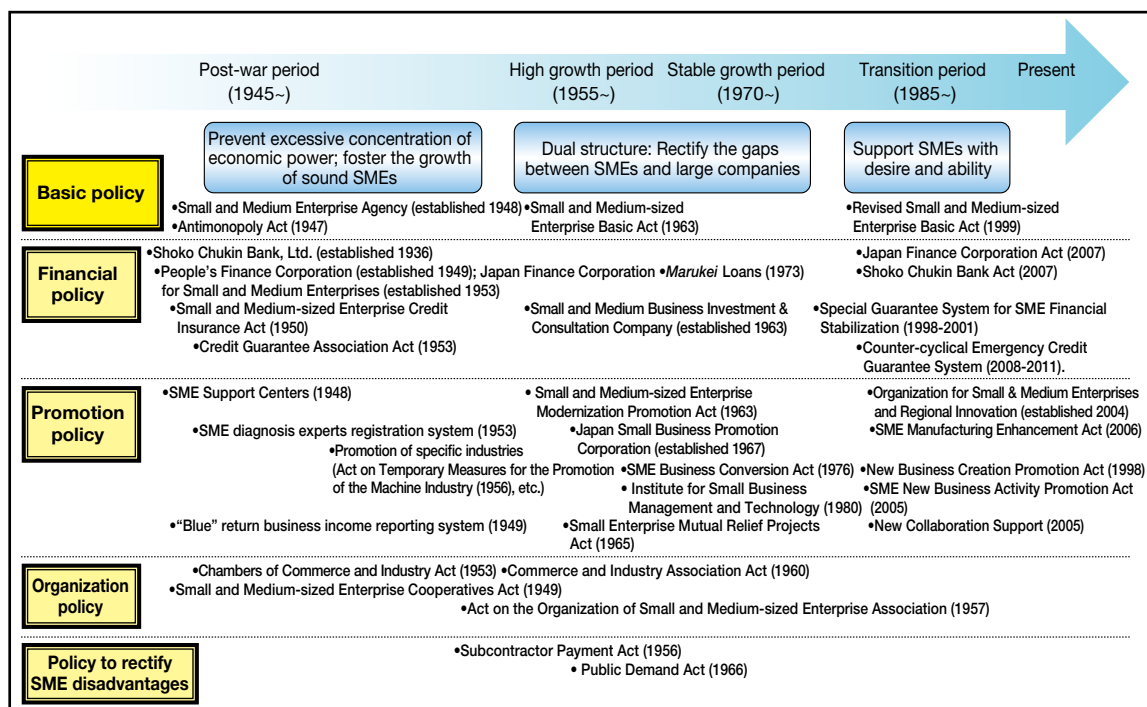
**(4) Transition period (1985~ )**

The sudden appreciation of the yen following the 1985 Plaza Accord and the subsequent recession had a severe impact on certain industries and on those regions with agglomerations of many enterprises in those industries. So SME business conversion became an urgent issue. The SME Business Conversion Act was revised in 1986, and government funds were provided to support SME business conversion.

With the collapse of the bubble economy in 1991, Japan entered the longest period of industrial restructuring in the post-war era, which continues to the present day. The business startup rate declined, the business closure rate rose, and the unemployment rate increased. In response, the government implemented a policy of supporting new SMEs and new SME businesses with new measures to help SMEs and individuals establish new businesses and invest in research and development, without restrictions specifying the types of industries. Also, the issue of the gap between SMEs and large enterprises receded with the diversification of consumer needs, the IT revolution and the progress of globalization. The agility and flexibility of SMEs became recognized as strengths in a fast-changing environment with more enterprises with greater diversity and the need to produce small quantities of many different products. Under these circumstances, the Small and Medium-sized Enterprise Basic Act was revised in 1999, radically improving Japan's SME support policies to provide more highly refined support to SMEs, which constitute the foundation of the Japanese economy, while respecting their self-help efforts.

The New Business Creation Promotion Act was passed in 1998 to support new business creation and upgrade the SME support system for each region. The policy shifted from support mostly through trade associations to support centered on individual growing enterprises, with more assistance from the fund projects of the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) and other methods to support diverse SME business activities. Moreover, the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises (SME New Business Activity Promotion Act) was enacted in 2005. This provides support for cooperation among enterprises in different industries (new collaboration support) in addition to traditional support to individual SMEs. The Act on Enhancement of SMEs' Core Manufacturing Technology (SME Manufacturing Enhancement Act) was then enacted in 2006, providing assistance to upgrade SME's basic manufacturing technology to support the international competitiveness of Japan's manufacturing industry. The government also expanded and improved the SME management support system by replacing the former guidance system with organic linkages among regional support organs to better address the diverse management issues facing individual SMEs. Efforts to offer a cash flow safety net to SMEs have included the Special Guarantee System for SME Financial Stabilization implemented from 1998 to 2001 and the counter-cyclical Emergency Guarantee Program implemented from 2008 to 2011.

**Column Fig. 2-1-1 The history of Japan's SME policies**



## Column 2-1-2 SME policies in Western countries

### 1. United States

#### (1) Definition of SMEs (small businesses)

In the U.S., the Small Business Act states that “a small-business concern, including but not limited to enterprises that are engaged in the business of production of food and fiber, ranching and raising of livestock, aquaculture, and all other farming and agricultural related industries, shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation.” The U.S. Small Business Administration also sets quantitative definitions for each industry, under federal administrative regulations, based on the number of employees over the past 12 months and the average annual income over the past three years and other requirements such as primarily conducting business within the U.S., or making an important contribution to the U.S. by using American products, raw materials and/or labor. For statistical purposes, the U.S. defines SMEs as enterprises that employ less than 500 people, regardless of industry. There are 27.37 million SMEs in the U.S. (as of 2008), about seven times the number in Japan.

#### (2) SME policy organs

The Small Business Administration (SBA), which was established as an independent agency, is responsible for planning, implementing and publicizing U.S. SME policy. In addition, the Export-Import Bank of the United States, National Institute of Standards and Technology, Department of Defense, Minority Business Development Agency and other government bodies also implement various SME policies. The Office of the Advocacy of the U.S. Small Business Administration (SBA) publishes an SME white paper each year entitled “The Small Business Economy: A Report to the President.”

#### (3) SME policy under the Obama Administration

The Small Business Jobs Act, which is aimed at stabilizing SME employment and boosting SME capital investment, was passed on September 27, 2010. The main provisions of this act summarized as follows.

### Column Fig. 2-1-2 Main contents of the Small Business Jobs Act of 2010

#### 1) SME Tax Reduction Measures<sup>1</sup> (approx. \$12 billion)

- (1) Tax exemption on capital gains on sale of small business stock
- (2) Expanded write-off for capital expenditures
- (3) Extension of 50% special depreciation on new capital investment
- (4) Increased deduction for start-up expenditures, etc.

#### 2) SME Financing

- (1) Expanding SBA financing with increased loan limits
- (2) Establishment of a \$30 billion small business lending fund
- (3) \$1.5 billion in subsidies to support state-run SME loan programs

#### 3) Others

- (1) Export promotion subsidies, etc.

Note: 1. Because this legislation is subject to the pay as you go rules, these tax reduction measures are matched with equivalent measures (\$14.5 billion) to increase tax revenues.

## 2. EU and European countries

### (1) Definition of SMEs

The 2003 Commission Recommendation on the definition of SMEs (2003/361/EC) defines SMEs as autonomous enterprises (enterprises that do not have 25% or more of the capital or voting rights in one or more other enterprises and/or outsiders do not have a stake of 25% or more of the capital or voting rights of one or more enterprises in question) which employ less than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total (total assets) not exceeding EUR 43 million.

For statistical purposes, the EU defines SMEs as that employ less than 250 people regardless of industry. There are 20.71 million SMEs in the EU (as of 2008), about five times the number in Japan.

### (2) SME policy organs

The SMEs and Entrepreneurship Department of the European Commission's Enterprise and Industry Directorate-General is responsible for SME policy. The Enterprise and Industry Directorate-General publishes the "SME Performance Review" each year (as the successor to the "Observatory of European SMEs" European SME white paper published through 2007) to review the conditions of SMEs in the EU and other countries.

### (3) SME policy under the Small Business Act for Europe

The European Parliament adopted the Small Business Act for Europe (SBA), based on the European Charter for Small Enterprises, which is not legally binding, on December 4, 2008. The main contents of the SBA are as follows.

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
3. Design rules according to the "Think Small First" principle
4. Make public administrations responsive to SMEs' needs
5. Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use State Aid possibilities for SMEs
6. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
7. Help SMEs to benefit more from the opportunities offered by the Single Market
8. Promote the upgrading of skills in SMEs and all forms of innovation
9. Enable SMEs to turn environmental challenges into opportunities
10. Encourage and support SMEs to benefit from the growth of markets

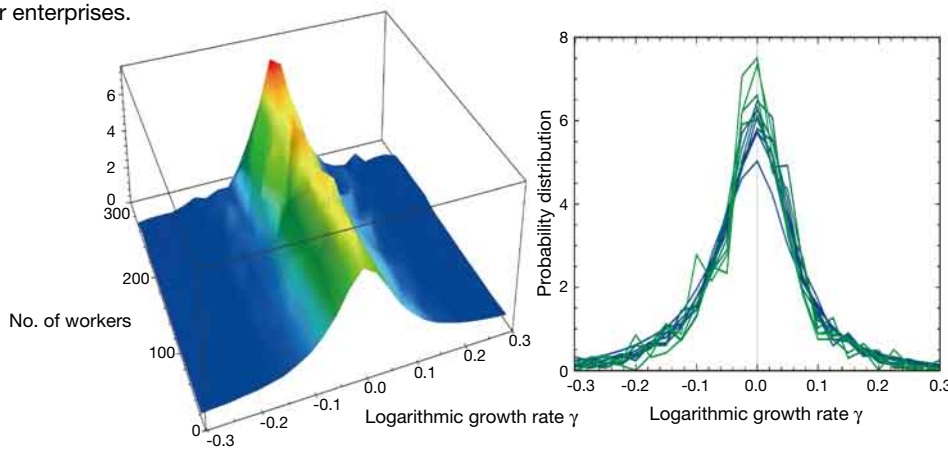
### Column 2-1-3 Relationship between enterprise scale and growth rates

Do SMEs grow more easily or with greater difficulty compared with large enterprises? In other words, does enterprise scale affect enterprise growth rates? This column presents analyses on the relationship between gross profit growth rates and the number of workers at 180,000 manufacturing companies in the Japanese SME Credit Risk Database (CRD).<sup>7)</sup>

The three-dimensional and two-dimensional figures in Column Figure 2-1-3 (1) present the gross profit growth rates distribution<sup>8)</sup> from 2007 to 2008 classifying the 180,000 enterprises into 12 cohorts by number of workers (#1: 0-24 workers, #2: 25-49 workers, ... #12: 275-299 workers). These figures show that the gross profit growth rate distributions have a lower peak and a broader shoulder as they progress from larger to smaller enterprises.

#### Column Fig. 2-1-3 (1) Gross profit growth rates distribution of each cohort by number of workers

The gross profit growth rate distributions have a lower peak and a broader shoulder as they progress from larger to smaller enterprises.

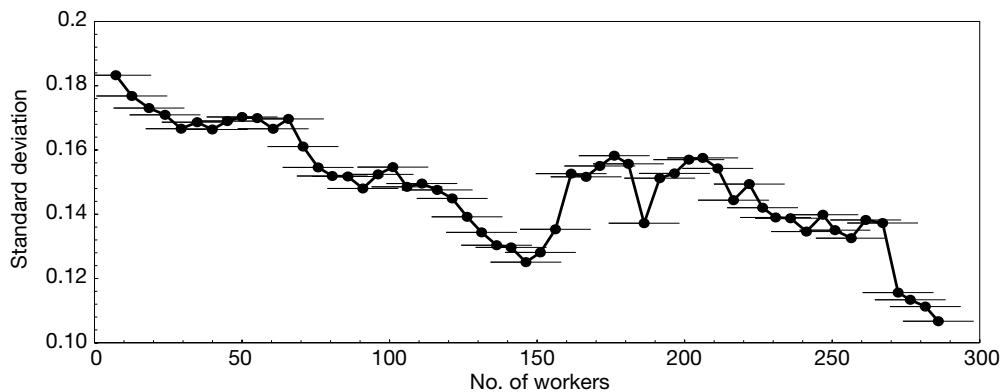


Source: Based on trial calculations conducted by Professor Hideaki Aoyama, Graduate School of Science, Kyoto University.  
 Notes: 1. The gross profit growth rates use the logarithmic growth rates. A one unit increase in the logarithmic growth rate indicates a 10-fold increase in the actual growth rate.  
 2. The right-hand figure shows the distributions for enterprises with a small number of workers in blue and those for enterprises with a large number of workers in green.

To present these results quantitatively, Column Figure 2-1-3 (2) presents the standard deviations with the scale of the changes in the gross profit growth rates on the vertical axis and the number of workers on the horizontal axis, with dots representing the average number of workers and lines showing the range of distribution of the number of workers. As mentioned above, the gross profit growth rate standard deviations tend to increase as they move from larger to smaller enterprises. This indicates that while enterprises with a smaller number of workers have a greater chance of success, they also tend to have a greater risk of failure.

#### Column Fig. 2-1-3 (2) Standard deviations of gross profit growth rates of each cohort by number of workers

The gross profit growth rate standard deviations tend to increase as they move from larger to smaller enterprises.



Source: Based on trial calculations conducted by Professor Hideaki Aoyama, Graduate School of Science, Kyoto University.

7) See Hideaki Aoyama, Hiroshi Ietomi, Yuichi Ikeda, Wataru Soma and Yoshihisa Fujiwara [2007].

8) The logarithmic growth rates are used. A one unit increase in the logarithmic growth rate indicates a 10-fold increase in the actual growth rate.

## Section 2 SMEs as the bedrock of industry

Focusing on the manufacturing industries that generate some 20% of Japan's GDP, the purpose of this section is twofold: firstly to demonstrate the importance of SMEs to trading structures and the supply of parts in industry, and

secondly to analyze the impact of environmental changes, including economic globalization, changes in affiliations, and technological shifts, on SMEs.

### [1] Position of SMMs

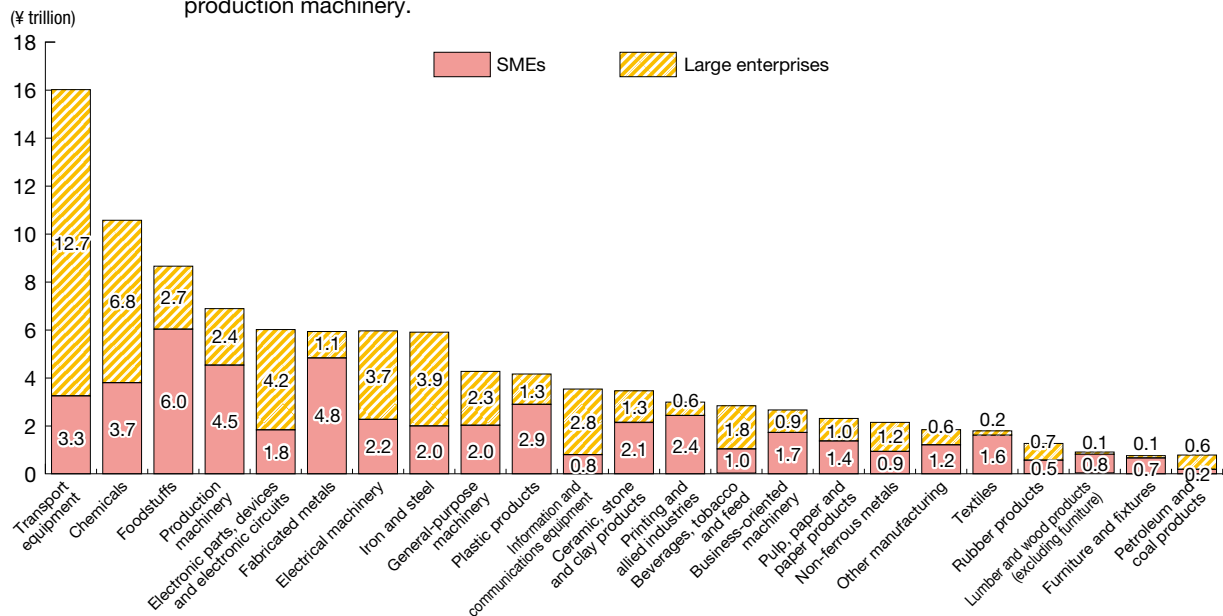
#### ● Value added in manufacturing

We begin by looking at value added in manufacturing. As observed in Section 1, SMMs generate approximately

50% of total manufacturing value added, and SMEs' contribution is particularly large in the manufacture of foodstuffs, fabricated metals, and production machinery (Fig. 2-1-27).

**Fig. 2-1-27 Value added by size (manufacturing)**

SMEs generate considerable value added in manufacturing of foodstuffs, fabricated metals, and production machinery.



Source: Recompiled from METI, 2008 Census of Manufactures.

- Notes:
1. Value added of business establishments with four or more workers.
  2. Gross value added is used for business establishments with 4-29 workers.
  3. "Leather tanning, leather products and fur skins" is included in other manufacturing.

#### ● Trading structures in the manufacture of transportation equipment

Having seen above that SMEs generate approximately 50% of total manufacturing value added, we look below at trading structures in manufacturing by examining one example: the manufacture of transportation equipment,<sup>9)</sup> which generates the largest amount of value added.<sup>10)</sup> In Fig. 2-1-28, the large circles represent large enterprises,

the small circles represent SMEs, and transactions between enterprises are shown by lines. The main minor categories of industry are distinguished by color. Enterprises with more purchases are placed higher on the vertical axis, while on the horizontal axis enterprises with close business relations are placed closer together and those with loose business relations are placed farther.<sup>11)</sup> It may be observed from this that large enterprises do

9) According to METI's 2008 Census of Manufactures, 15.8% of manufacturing value added was accounted for by transportation equipment, 10.4% by chemicals, 8.5% by foodstuffs, 6.8% by production machinery, and 5.9% by electronic parts, devices and electronic circuits. See Appended Note 2-1-3.

10) The trading structures in chemicals, foodstuffs, production machinery, and electronic parts, devices and electronic circuits are described in Appended Notes 2-1-4, 2-1-5, 2-1-6 and 2-1-7, together with the leading enterprises in these manufacturing industries.

11) Enterprises with close business relations comprise groups of enterprises with numerous transactions and strong ties. Enterprises with loose business relations comprise groups of enterprises with few transactions and weak ties. For details of sampling of enterprises with close business relations, see Appended Note 2-1-8.



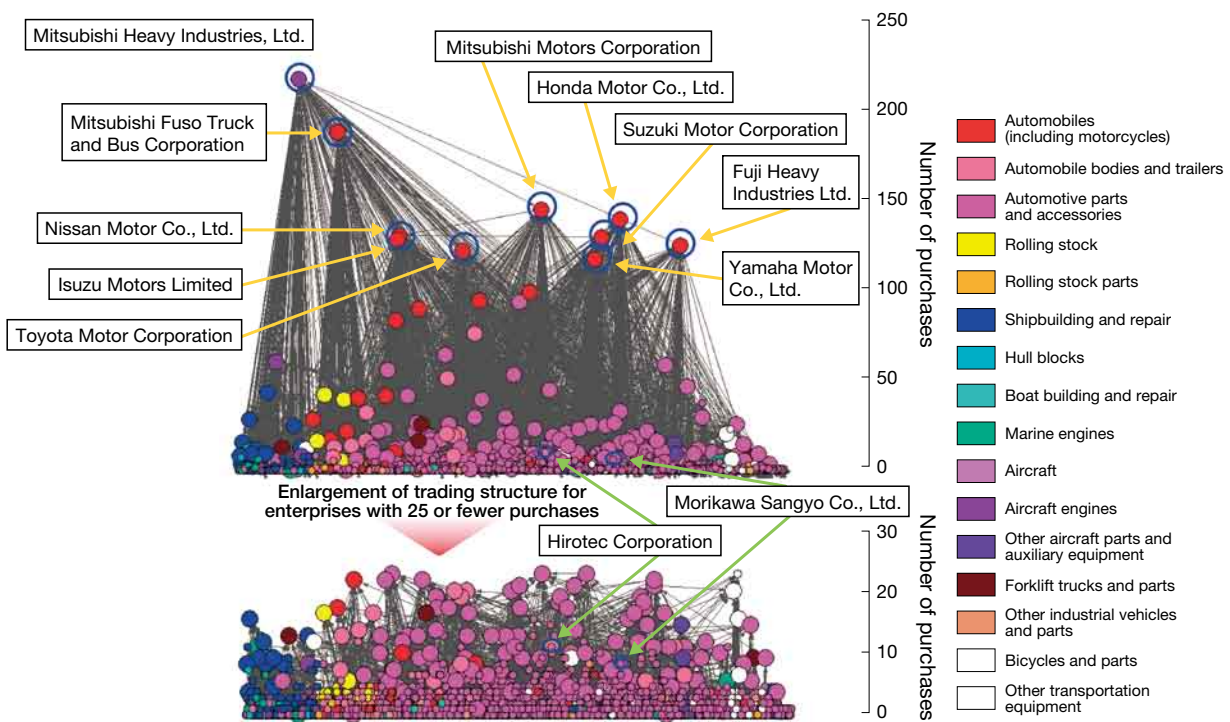
business with large numbers of other enterprises, and that SMEs are to be found among these business partners. In the top left, there is one enterprise that has almost 250 purchases, while on the right-hand side there are five enterprises with approximately 150 purchases. The lines extending down from these enterprises are concentrated within the same immediately related group of enterprises, reflecting the existence of enterprise groups with which each enterprise has purchase and sale relations. At the same time, however, it may be observe that transactions also extend beyond these groups.

Enlarging the section representing enterprise groups with 25 or fewer purchases, we find numerous SMEs with highly concentrated transactions at the base. Also apparent

is that some SMEs coordinate large numbers of SMEs and manufacture large varieties of parts.<sup>12)</sup> As observed in Chapter 2 of Part I, the impact on industry supply chains of the suspension of production by core SMEs following the earthquake was one of the factors behind an approximately 60% year-on-year slump in domestic unit production by automakers in March 2011 that also forced plants in Europe and North America to suspend production, prompting a renewed recognition of SMEs' role in supporting industry. Thus even in industries in which large enterprises generate much of the value added, it can be seen that SMEs play a pivotal role in Japanese manufacturing activity.

**Fig. 2-1-28 Trading structures in transportation equipment manufacturing**

Taking transportation equipment as illustrative of the trading structures to be found in manufacturing, it can be seen that SMEs manufacturing numerous automotive parts and accessories support large automakers with numerous purchases, and that some of these SMEs coordinate large numbers of SMEs and manufacture a large variety of parts.



Source: Recompiled from Tokyo Shoko Research, Ltd., *TSR Enterprise Correlation Files (2010)*.

- Notes:
1. Transactions between enterprises are represented by lines. Large enterprises are indicated by large circles, and SMEs by small circles. The color of the circle indicates the principal minor group of industry of each enterprise as recorded in the Industry Minor Groups Database.
  2. The transactions are drawn from a sample of transactions between enterprises in the same industry, and do not represent all the data contained in the Enterprise Correlation Files.
  3. The Enterprise Correlation Files were compiled from data as of the time of surveys and interviews by Tokyo Shoko Research, Ltd., and may now no longer pertain.

12) See Cases 2-1-3 and 2-1-4.

### Case 2-1-3

#### A company that kept growing with a policy of manufacturing their own equipment

Hirotech Corporation is a general manufacturer in Hiroshima City, Hiroshima Prefecture producing automobile parts, dies, equipment and production facilities with 1,340 employees and capital of ¥280 million.

Hirotech has been manufacturing in Hiroshima ever since the company was founded in 1932. They received their first order for automobile body parts from Mazda Motor Corporation in 1953, and began production and sales of press dies and press machinery in 1959. In 1982, they received orders to design and manufacture doors for all Mazda models. In the 1980s, Hirotech also gained a worldwide reputation as a comprehensive automobile equipment manufacturer, going beyond the production of automobile parts, with orders from Saab, Ford and other foreign automakers for door dies and car body assembly facilities. The company initiated muffler production from 1985, and presently has 21 plants in nine countries worldwide. Hirotech provides the world's automakers with mass production parts and facilities.

Ever since Hirotech was founded, the company has maintained a policy of manufacturing its own equipment. Hirotech manufactures all production equipment used in-house, and is using accumulated know-how to design, manufacture and sell press dies and car body assembly facilities to automakers, centered on automobile doors.



Inside a Hirotech plant

### Case 2-1-4

#### A company which expanded production of automobile parts using their proprietary precision casting production technology

Morikawa Sangyo Co., Ltd. is engaged in materials processing and in the design and production of automobile and automobile-related cast parts, environmental equipment, precision machinery and general production machinery, as well as the design and production of refrigeration and air-conditioning valves, in Chikuma City, Nagano Prefecture with 250 employees and capital of ¥235 million. The company is making use of its sophisticated precision casting technologies to manufacture not only automobile parts but also printed circuit board manufacturing equipment requiring micron-level precision, as well as VOC<sup>13)</sup> recovery and other environmental equipment. So Morikawa Sangyo is active in a wide range of industries from automobiles to the environment.

The company was engaged in light alloy casting when it was founded. They began producing precision cast iron products from around 1949, and started to supply Honda Motor Co., Ltd. from 1952. Morikawa Sangyo was subsequently among the first to introduce electric furnaces and to develop new casting methods, improving its production technology capabilities and expanding into other fields aside from those related to automobiles.

In particular, the lost-form casting process developed by the company using sand and polystyrene foam can be used to make parts with complex shapes that are difficult to produce using regular casting. This casting process has gained recognition worldwide.

Morikawa Sangyo supplies Honda Motor with engine, brake and other parts, which have earned a reputation for their quality and technological superiority.

Meanwhile, the company's datum hole equipment for X-ray multilayer printed circuit board has the highest level performance in Japan, and is used at many circuit board manufacturers nationwide and worldwide. Morikawa Sangyo's refrigeration and air conditioning valves, which began with the "Morikawa valve" in 1961, have also won the top share in the domestic refrigeration and air conditioning valve market.

13) VOC is an abbreviation for Volatile Organic Compounds, mostly volatile organic substances with a boiling point of 250°C or less. When released into the atmosphere, VOCs cause damage to the environment and human health. Factory VOC emissions have been regulated in Japan since the 2004 revision of the Air Pollution Control Act.

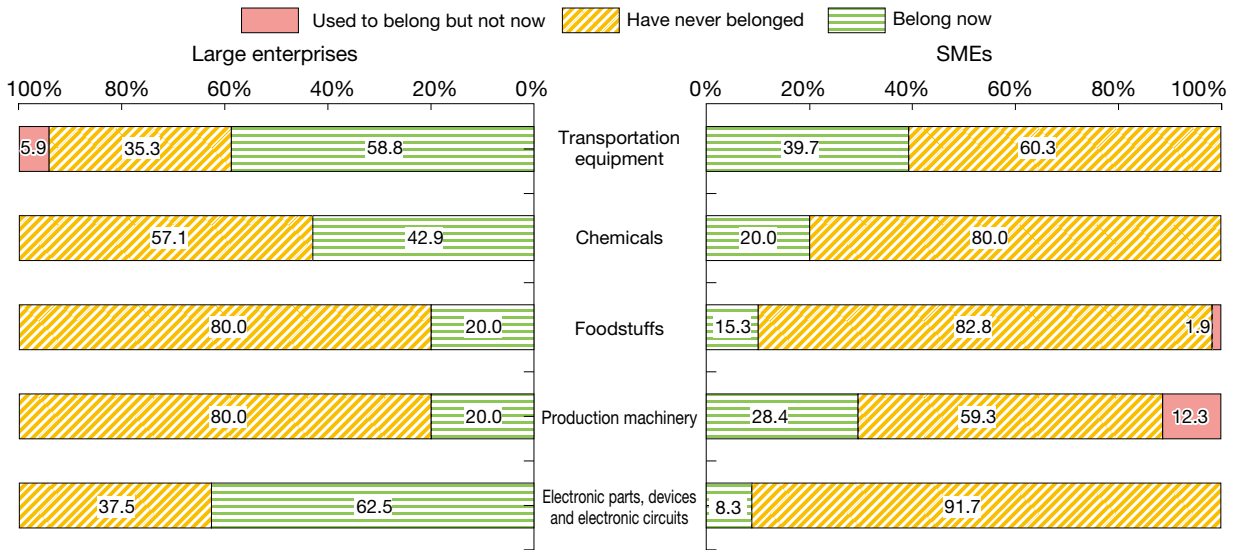
● **Keiretsu groups**

Having examined the pivotal role played by SMEs in Japanese manufacturing, we consider below transactions between SMEs and large enterprises that belong to the same group of enterprises, or *keiretsu*. Fig. 2-1-29 depicts the state of membership of *keiretsu* in the following categories

of industry that create high value added: transportation equipment; chemicals, foodstuffs; production machinery; and electronic parts, devices and electronic circuits. The approximate proportion of enterprises that said that they belong to a *keiretsu* was 40% in transportation equipment and 30% in production machinery.

**Fig. 2-1-29 Own membership of keiretsu**

The approximate proportion of enterprises that said that they belong to a *keiretsu* was 40% in transportation equipment and 30% in production machinery.



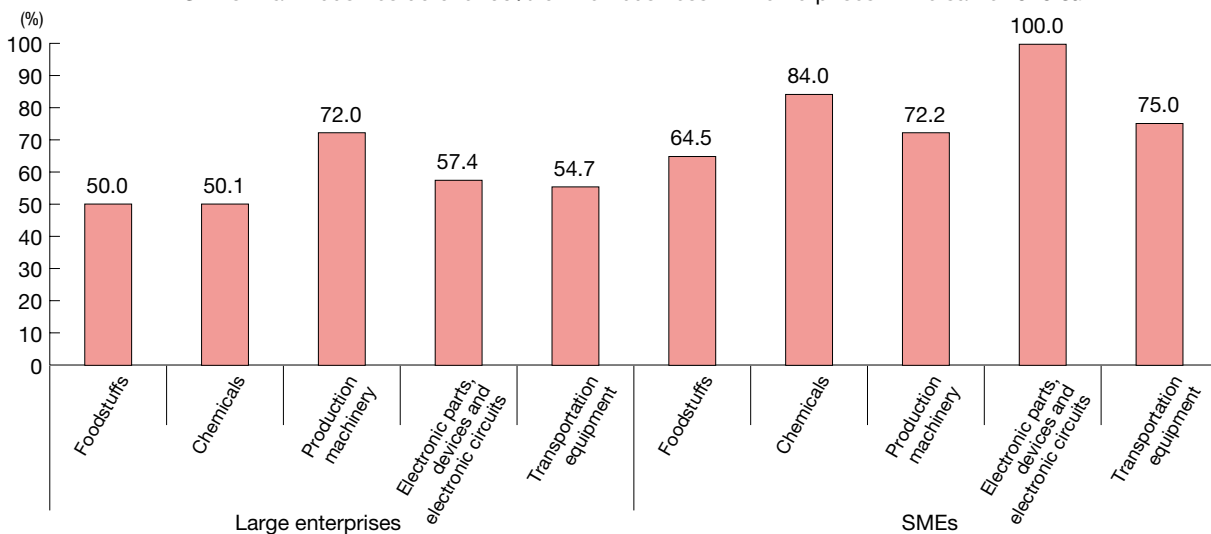
Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

Fig. 2-1-30 shows the proportions of transactions that currently occur within enterprises' own *keiretsu* according to SMEs that said that they belong so such a groups.

SMEs in all industries do over 60% of their business with enterprises in the same *keiretsu*.

**Fig. 2-1-30 Percentage of recent transactions occurring within own keiretsu**

SMEs in all industries do over 60% of their business with enterprises in the same *keiretsu*.



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

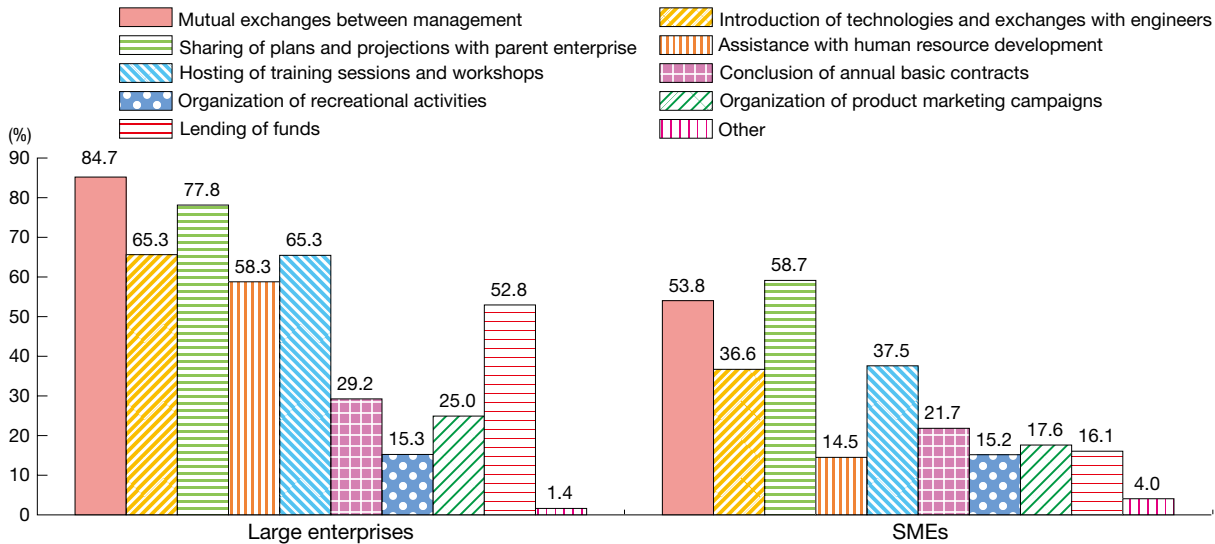
Note: Only enterprises that said that they belong to a *keiretsu* organization are included in the above.

Fig. 2-1-31 shows the types of activity engaged in within the same *keiretsu*, and from this it can be seen that while comparatively fewer SMEs than large enterprises engage in each type overall, over 50% of enterprises engage in

“sharing of plans and projections with parent enterprise” and “mutual exchanges between management,” reflecting the positive approach taken to activities that lead to business opportunities.

**Fig. 2-1-31 Types of activities engaged in within *keiretsu***

Over 50% of SMEs engage in “sharing of plans and projections with parent enterprise” and “mutual exchanges between management.”



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

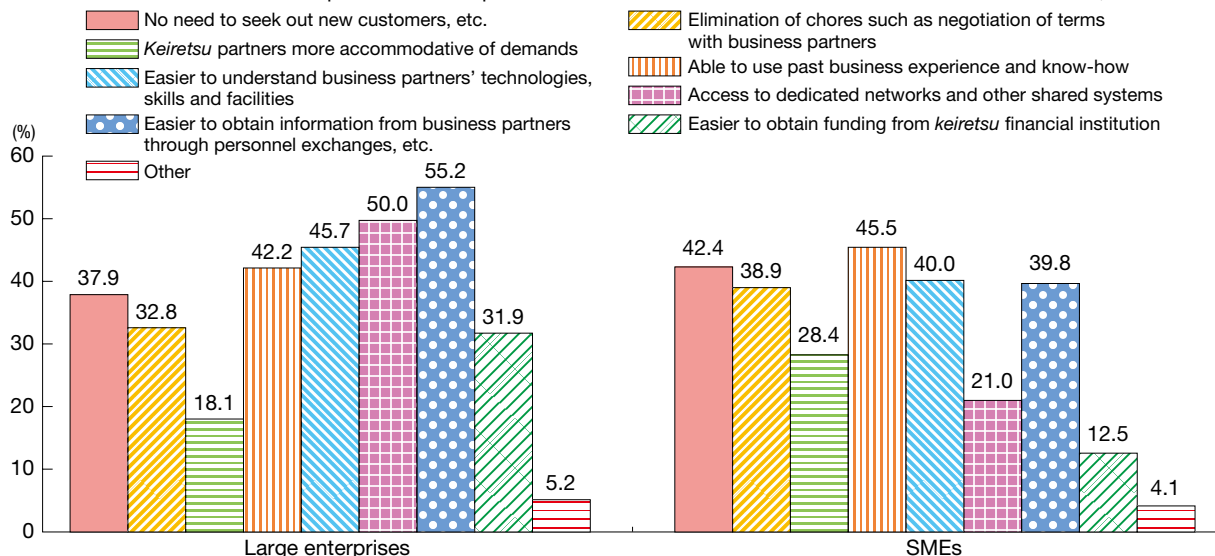
Notes: 1. Only enterprises that said that they belong to a *keiretsu* organization are included in the above.  
2. Totals do not necessarily sum to 100 due to multiple responses.

From the perceived advantages of belonging to a *keiretsu* shown in Fig. 2-1-32, it can be seen that SMEs are more likely than large enterprises to cite those that

contribute to business stability, such as “ability to make use of past business experience and know-how” and “no need to seek out new customers, etc.”

**Fig. 2-1-32 Advantages of belonging to a *keiretsu***

SMEs are more likely than large enterprises to cite advantages that contribute to business stability, such as “ability to make use of past business experience and know-how” and “no need to seek out new customers, etc.”



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

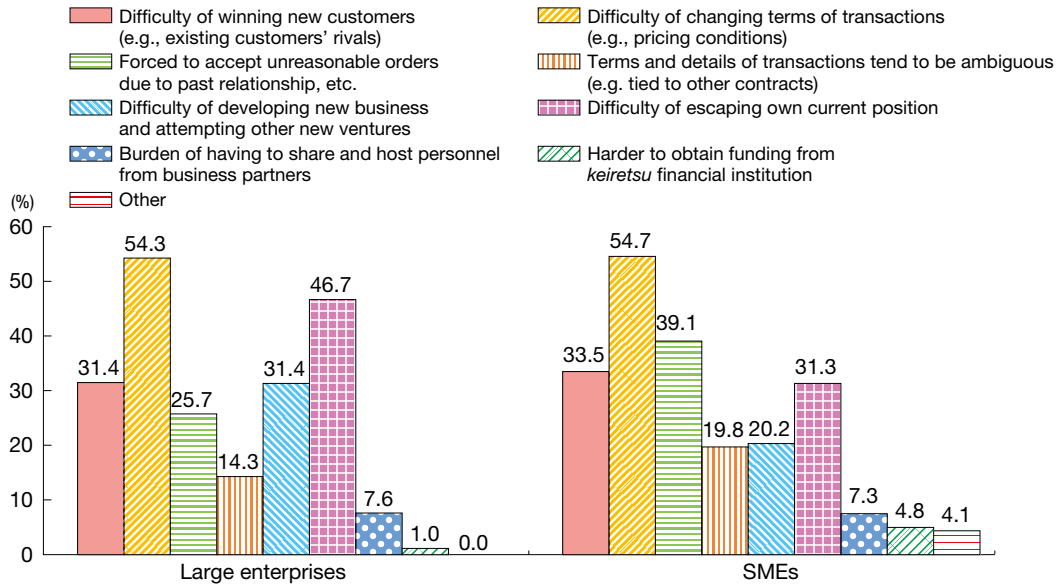
Note: Totals do not necessarily sum to 100 due to multiple responses.

On the whole, SMEs feel there to be fewer disadvantages to being a member of a *keiretsu* than large enterprises. However, high proportions do see their subordinate status within the group as being disadvantageous, as evidenced

by the proportions reporting “difficulty of changing terms of business such as pricing conditions” and being “forced to accept unreasonable orders due to past relationship, etc.” (Fig. 2-1-33).

**Fig. 2-1-33 Disadvantages of belonging to a *keiretsu***

High proportions of SMEs see their subordinate status as being disadvantageous than large enterprises, as evidenced by the proportions reporting “difficulty of changing terms of business such as pricing conditions” and “forced to accept unreasonable orders due to past relationship, etc.”



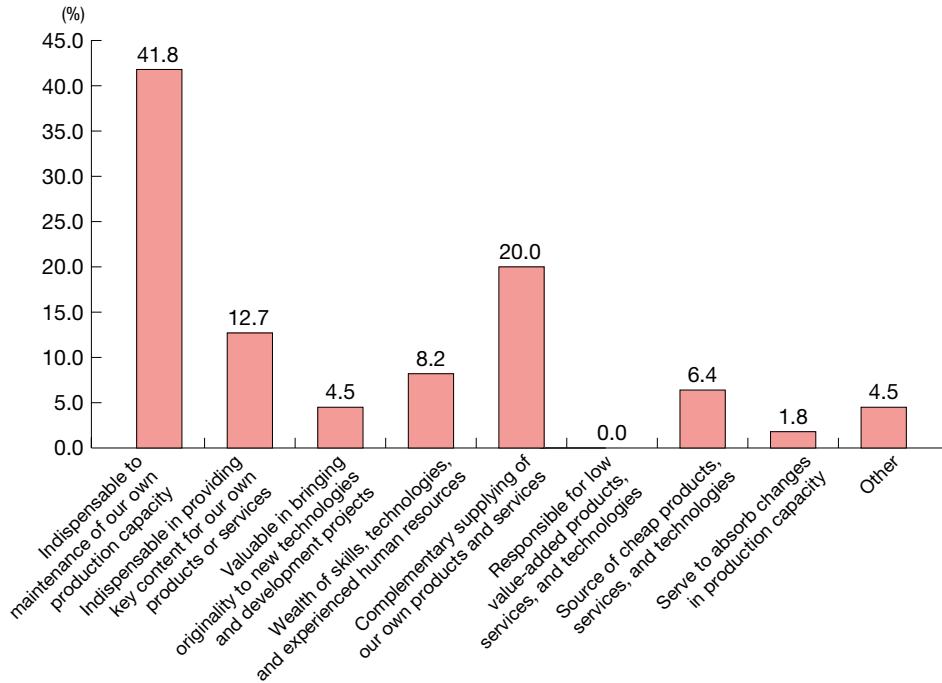
Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

How then do large enterprises regard the presence of SMEs in their *keiretsu*? From the findings summarized in Fig. 2-1-34, which show the commonest response (given by 40% of large enterprises) to be “indispensable to maintenance of our own production capacity,” followed by “complementary supplying of our own products and services” and “indispensable in providing key content for our own products or services,” it may be concluded that SMEs are regarded by large enterprises as essential members of their *keiretsu*.

Fig. 2-1-35 compares large enterprises’ and SMEs’ interest in doing business with enterprises in their *keiretsu*. This shows that approximately 40% of both large enterprises and SMEs “want to maintain” their business with *keiretsu* members. SMEs appear particularly interested in their *keiretsu* ties, with a little less than 50% saying that they want to increase their non-*keiretsu* business while maintaining their business with *keiretsu* members.

**Fig. 2-1-34 Large enterprises' perceptions of SMEs' presence in their keiretsu**

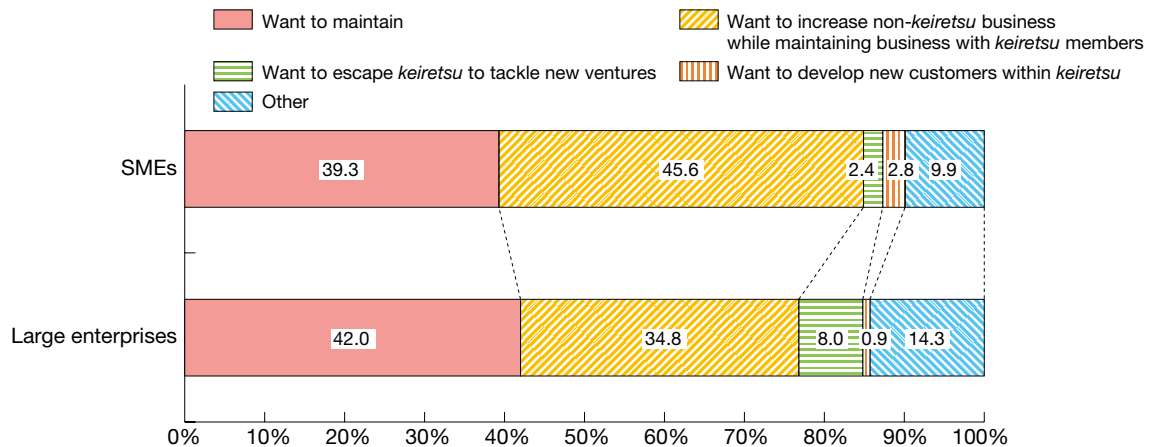
While the most prevalent view among large enterprises of the position of SMEs in their *keiretsu* is as "indispensable to maintenance of our own production capacity," some 20% responded "complementary supplying of our own products and services."



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

**Fig. 2-1-35 Interest in doing business with enterprises in same keiretsu**

Just under 50% of SMEs want to increase their non-*keiretsu* business enterprises while maintaining business with *keiretsu* members.



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

Focusing mainly on manufacturing, we have surveyed the position of SMEs from the point of view of value added, trading structure, and *keiretsu* affiliation, and have seen as a result how SMEs function as the bedrock of Japanese industry: they create considerable value added, some do business with large numbers of enterprises or produce a

wide variety of products, and they are indispensable to the activities of large enterprises even within their *keiretsu*. In the following subsection, we turn our focus to look at the products, etc. provided by SMEs, including SMEs that do not belong to *keiretsu*.

**Case  
2-1-5**

**A company that developed a modular press punch through government-industry cooperation which was adopted by a leading automobile manufacturer**

Kyoyu Co., Ltd. manufactures press dies and other parts for the electronic device industry and automobile-related industries in the Tooda district of Miyagi Prefecture, with 108 employees and capital of ¥88.88 million.

Kyoyu is involved in every process from design and development through to the production of prototypes, product manufacturing and shipping. The company has multiple shifts on its production lines, and operates nearly 24 hours a day. This system makes it possible for Kyoyu to develop and produce high-precision products in a short period of time, which has become the company's strength.

Kyoyu came into contact with a leading auto parts manufacturer that had advanced into the Tohoku region at a marketing event arranged by a regional public body. This meeting led Kyoyu to use its development and production system strengths to develop a modular press punch.<sup>14)</sup> The blade of this punch can be replaced without replacing other parts, slashing tool costs by 50%. The punch is now being used by the leading auto parts manufacturer. Kyoyu will continue to make use of its integrated production system for further product development.



Integrated punch



Modular punch (unassembled)



Modular punch (assembled)

**Case  
2-1-6**

**A company which applied its insert molding technology to connector components, opening up a sales channel to a leading manufacturer**

Best Co., Ltd. manufactures dies and parts for ultra-precision products in Kitakami City, Iwate Prefecture with 46 employees and capital of ¥16.5 million.

Best has the sophisticated technologies used to manufacture parts for cell phones and other products. The company's strengths lie in its integrated development and production system, to meet short delivery times.

When customers ask if Best can create a certain type of item, Best does not hesitate to prepare a proposal with planning, design and prototype production capitalizing on the company's strengths. Best has won the trust of its customers by meeting their needs.

When Best succeeded in using its strengths in miniaturized insert molding<sup>15)</sup> technology to manufacture card slot connector parts for cell phone micro SD cards,<sup>16)</sup> an existing customer that is a leading electric machinery manufacturer introduced Best to a major automobile manufacturer as "a company that can be trusted," and Best won new orders.



Card slot connector for inserting cell phone micro SD cards

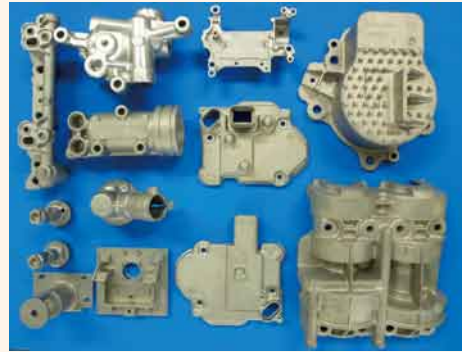
14) A modular press punch is an industrial tool used in press work. Unlike conventional integrated press punches, the modular press punch has separate blade and body sections. The blades are made with abrasion-resistant materials for a longer working life, and the body can be used for a long time, cutting running costs by half.  
 15) One manufacturing method which places materials into dies for molding. With insert molding, metal and other materials are inserted into the dies before the resin is injected. This facilitates the production of connector components that combine terminals and resin into one part. These are used in cell phones and other products.  
 16) SD cards are miniaturized, thin external memories that can store images and sound, mostly used in cell phones and other small equipment. SD cards are inserted into slots for connection.

**Case  
2-1-7****A company that developed technologies to reduce processing costs and established auto parts manufacturing technologies**

Ksd Co., Ltd. produces high precision aluminum die cast parts for gearshift levers, microscopes and other precision equipment in Ichinomiya City, Aichi Prefecture with 130 employees and capital of ¥20 million.

Ksd uses HAD<sup>17)</sup> to minimize subsequent works on its die cast parts. The company is positively advancing improvements in its casting methods for improved product precision and greater design freedom.

Ksd made use of its development and technological abilities to adopt a new casting method that other companies would not try. Ksd has won the trust of its customers by appealing to the total merits gained by seeking improvements from the customer's viewpoint, realizing high yields, cutting expenses, and shortening delivery times.



Die cast products

**Case  
2-1-8****A company which carries out customer-centered manufacturing with a self-reliance policy aimed at 100% in-house production**

Yoshiizumi Industry Corporation produces food slicers and other commercial food processing equipment in Hirakata City, Osaka Prefecture with 60 employees and capital of ¥10 million. These include slicers that use visual data to determine cut placement that can cut slices of fish with uniform thickness.

There are a limited number of customers for the company's products, which are nearly made-to-order. Parts outsourcing would often be more costly because of the small number of orders. So Yoshiizumi Industry has introduced parts manufacturing machinery for in-house parts production under a policy of thorough self-reliance. Their sales personnel visit customers on a regular basis to grasp their needs. After delivery, they listen to customer requests for improvements during equipment maintenance, promptly relay these to the development and production divisions, and develop new products and improved parts in a short period of time. In this way, Yoshiizumi Industry carries out customer-centered manufacturing.

With this thorough self-reliance and customer-centered manufacturing, Yoshiizumi Industry produces highly original products, avoiding price competition with goods made by other firms. This approach has also accumulated original technologies and experience within the company, which contributes to faster product development and higher quality.



Commercial food processing equipment

17) HAD is an abbreviation for "High Ability in precision Die casting," a precision casting method used by Ksd since the company was founded. With regular die casting methods, when precision parts and other items are cast in molds, it would be impossible to pull the cast items straight out from the molds because of the great resistance. So a slight inclination is added to the required shape, which facilitates removal. This inclined portion is cut off after removal from the molds to finish the cast product. Because HAD does not require this added inclination for easy removal, the post-casting work of cutting off the inclined portion is not needed. HAD also prevents the waste of metal from casting the inclined portion, and it facilitates high precision, since the molds cast only the required items.



## Column 2-1-4 Trading structure differences between the construction industry and the manufacturing industry

While Figure 2-1-28 presented the trading structure of the transportation equipment manufacturing industry, this column compares the trading structures of the construction industry and the manufacturing industry. Column Figure 2-1-4 presents the trading structures of the construction industry and the manufacturing industry using the *TSR Enterprise Correlation Files (2006)* compiled by Tokyo Shoko Research, Ltd.<sup>18)</sup> The figure shows large enterprises on the left and both SMEs and large enterprises on the right. The colors indicate geographical regions.

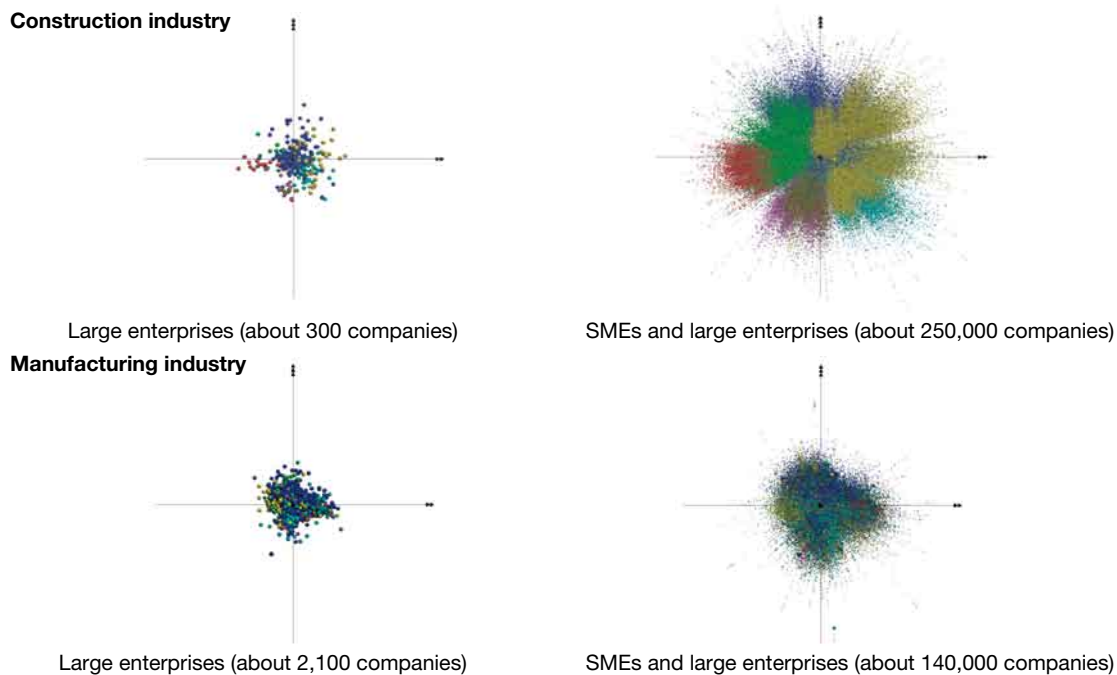
First, the construction industry shows a broader structure, stretching out in all directions, compared with the manufacturing industry, suggesting a large number of vertical transactions among parent, subsidiary, and sub-subsubsidiary companies.<sup>19)</sup> The reason for this is that in the construction industry materials are often fabricated for each project, in contrast with the manufacturing industry which typically involves the mass production of products and components. Next, compared with the manufacturing industry, the construction industry also shows more concentrations of enterprises depicted with the same color, suggesting many transactions are among enterprises located in the same region.<sup>20)</sup> This is apparently due to the particular circumstances of the construction industry, such as the time limits on the use of liquid concrete, which restrict some transactions to within a certain distance.<sup>21)</sup>

Grasping this trading structure among enterprises makes it possible to clarify how a given phenomenon spreads from contractors to subcontractors, such as the chain-reaction bankruptcies introduced in the next column, Column 2-1-5.

With the econophysics and other research now underway, further progress in analytical methodologies is expected to provide a more detailed grasp of the trading structure among enterprises.

### Column Fig. 2-1-4 Construction industry and manufacturing industry trading structures

The construction industry structure suggest more vertical transactions and more intra-regional trading compared with the manufacturing industry.



Source: Prepared by Professor Hiroshi Ietomi, Department of Physics, Faculty of Science, Niigata University using the *TSR Enterprise Correlation Files (2006)* compiled by Tokyo Shoko Research, Ltd.

Notes: Red: Hokkaido region  
 Green: Tohoku region (Aomori, Iwate, Miyagi, Akita, Yamagata and Fukushima Prefectures)  
 Blue: Kanto region (Gunma, Tochigi, Ibaraki, Saitama, Tokyo, Chiba and Kanagawa Prefectures)  
 Yellow: Chubu region (Niigata, Toyama, Ishikawa, Fukui, Yamanashi, Nagano, Shizuoka, Aichi and Gifu Prefectures)  
 Light blue: Kinki region (Mie, Shiga, Osaka, Kyoto, Hyogo, Nara and Wakayama Prefectures)  
 Pink: Chugoku region (Tottori, Shimane, Okayama, Hiroshima and Yamaguchi Prefectures)  
 Grey: Shikoku region (Kagawa, Tokushima, Ehime and Kochi Prefectures)  
 Blue-green: Kyushu-Okinawa region (Fukuoka, Saga, Oita, Nagasaki, Miyazaki, Kumamoto, Kagoshima and Okinawa Prefectures)

18) Applying a molecular dynamics simulation which seeks the most stable three-dimensional configuration under conditions whereby enterprises with trading relations draw closer and those without trading relations move apart.

19) This confirms that compared with the manufacturing industry, the construction industry has many enterprises conducting a small number of transactions. See Appended Note 2-1-9.

20) The percentage of transactions among enterprises located in the same region is 86% (402,237 out of 470,035 transactions) in the construction industry compared with 61% (200,683 out of 326,808 transactions) in the manufacturing industry.

21) Under the Japan Industrial Standards, wet concrete must be poured into frames within 90 minutes of mixing.

### Column 2-1-5 Chain-reaction bankruptcies from the bankruptcy of a business partners

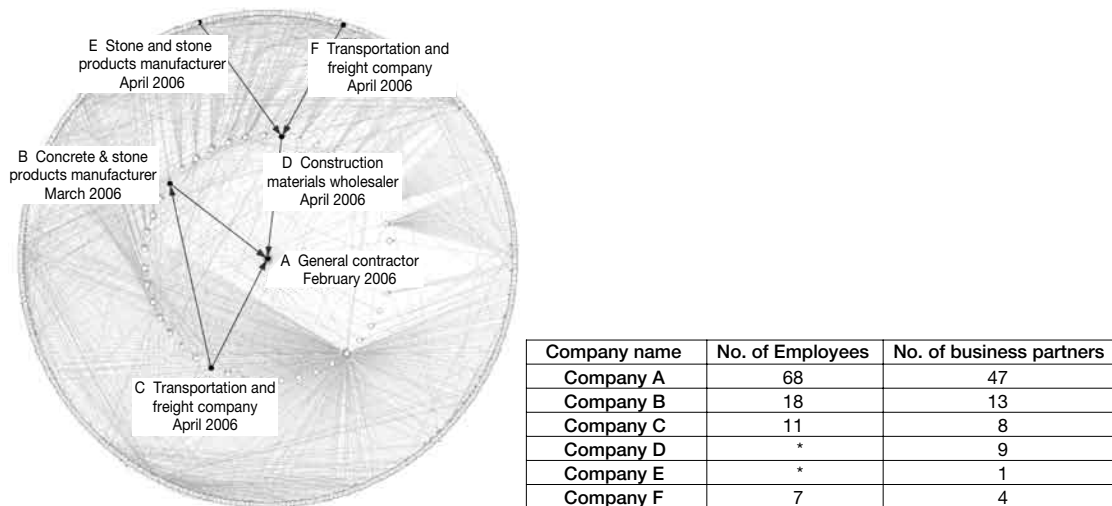
While enterprises may secure work from their business partners, this also exposes them to the risk from poor performance and bankruptcies at those enterprises that give them business. Since transactions among enterprises generally involve the extension of credit (by lenders/creditors) and the receipt of credit (by borrowers/debtors), when a company fails, the other firms that have extended some sort of credit to that company sometimes suffer chain-reaction bankruptcies since they cannot collect accounts receivable, have products delivered, etc.<sup>22)</sup>

Column Figure 2-1-5 illustrates an example of chain-reaction bankruptcies from the bankruptcy of a business partner.<sup>23)</sup> The company in the center of this figure, Company A (a general contractor) is a powerful firm that has been involved in the regional construction industry, but went bankrupt in February 2006 because of a slump in demand. The impact from this bankruptcy spread to Company A's suppliers: Company B (a concrete and stone products manufacturer) went bankrupt in March, and Company C (a transportation and freight company) and Company D (a construction materials wholesaler) went bankrupt in April. In April two firms which supply Company D also went bankrupt: Company E (a stone and stone products manufacturer), and Company F (a transportation and freight company).

The enterprises that are easily subject to chain-reaction bankruptcies are those with few business partners, which suffer a fatal impact when business partners go bankrupt. These are often SMEs because there is a positive correlation between enterprise scale and the number of business partners.<sup>24)</sup> In this example as well, the enterprises suffering chain-reaction bankruptcies are all SMEs, and the relation between the number of workers and the number of business partners at each company is generally proportional.

**Column Fig. 2-1-5 Example of chain-reaction bankruptcies from the bankruptcy of a business partner**

The enterprises suffering chain-reaction bankruptcies were all SMEs, and the relation between the number of workers and the number business partners at each enterprise was generally proportional.



Source: Prepared by Lecturer Yoshihisa Fujiwara, Faculty of Integrated Human Studies, Kyoto University (presently Professor, Research Department, Graduate School of Simulation Studies, University of Hyogo) using the *TSR Enterprise Correlation Files* compiled by Tokyo Shoko Research, Ltd.

- Notes:
1. The center point shows the initial enterprise that went bankrupt, the inner circle shows that enterprise's suppliers, and the outer circle shows those enterprises' suppliers.
  2. The black dots show the enterprises that went bankrupt and the dates show the bankruptcy dates.
  3. Asterisks (\*) denote missing data.

The Small and Medium Enterprise Agency is working to prevent SME chain-reaction bankruptcies via the "Mutual Relief System for the Prevention of Bankruptcies of SMEs" which provides mutual aid loans, "safety net lending (funds to respond to customer bankruptcies)" given by the Japan Finance Corporation to enterprises that have fallen into management difficulties because of bankruptcies of related enterprises, and the "Safety Net Guarantee System" which provides a credit line with a separate credit limit from general guarantees under the credit guarantee system.

22) According to the *Enterprise Bankruptcy Annual Report (FY2009 bankruptcies)* published by the Business Mutual Aid Association, effects of other enterprises' bankruptcies and difficulties collecting accounts receivable account for about 7% of bankruptcies by number of cases and about 30% by the amount of liabilities. In addition to spreading through trading relations, chain-reaction bankruptcies can also spread via various other relationships such as ownership relations and mutual relations within specific localities and industries.

23) Joint research by Kyoto University and Tokyo Shoko Research, Ltd.

24) According to large-scale data analysis [1, Fig. 2 (b)], there is a positive correlation between the number of business partners and enterprise scale. For details, see Y. Fujiwara and H. Aoyama [2010] "Large-Scale Structure of a Nation-wide Production Network," *European Physical Journal B*, Vol.77, No.4, pp.565-580.

## Column 2-1-5 Case A company that overcame the bankruptcy of its main customer and evolved into manufacturer of its own products

Kimioka Iron Works Co., Ltd. manufactures construction scaffolding in Nara City, Nara Prefecture with 21 employees and capital of ¥10 million.

In 1993, the company's main customer, which provided most of its work orders, suddenly went bankrupt. Kimioka Iron Works was hit particularly hard by the uncollectible accounts receivable because they had just invested in facilities and equipment for in-house production. President Seiji Kimioka obtained working capital from mutual aid loans of the Mutual Relief System for the Prevention of Bankruptcies of SMEs. While earning sales revenues from processing the company's existing scaffolding products, Kimioka Iron Works developed sales routes for the *Kuimaru* high-performance steel pipe pile which the company had developed independently, and which can be driven into difficult ground surfaces.<sup>25)</sup> From their harsh experience in 1993, the company recognized that heavily depending on any single customer increases business risk. So Kimioka Iron Works marketed the *Kuimaru* nationwide and gradually opened up sales channels filling both small and large orders. Recognition of the company's product, with its high performance, rose over time. The number of customers steadily increased, and Kimioka Iron Works overcame the crisis from their main customer's bankruptcy.

The *Kuimaru*, which was originally designed for scaffolding, is increasingly being adopted for applications outside the construction industry. For example, the *Kuimaru* was recently adopted by Central Japan Railway Company as the standard pile for 700km of railway. By conducting joint research with Kansai University, Kimioka Iron works is making every effort to expand opportunities to use the *Kuimaru* in various types of construction works, and has achieved a stable trading structure as a manufacturer of its own products.



Manufacturing high-performance steel pipe piles

### [2] SMEs' products, etc.

SMEs make and supply products with world-leading market shares and goods that are indispensable to business activities and people's everyday lives in Japan.

Let us take automobile production in the transportation equipment manufacturing industry as an example. As automobiles consist of some 20,000 to 30,000 parts (including engine parts; drive, transmission and steering parts; suspension, brake and other parts), SMEs in Japan have been involved in the manufacture of a variety of products and so play a major role in automobile production.<sup>26)</sup>

Below, we look at the characteristics that SMEs and

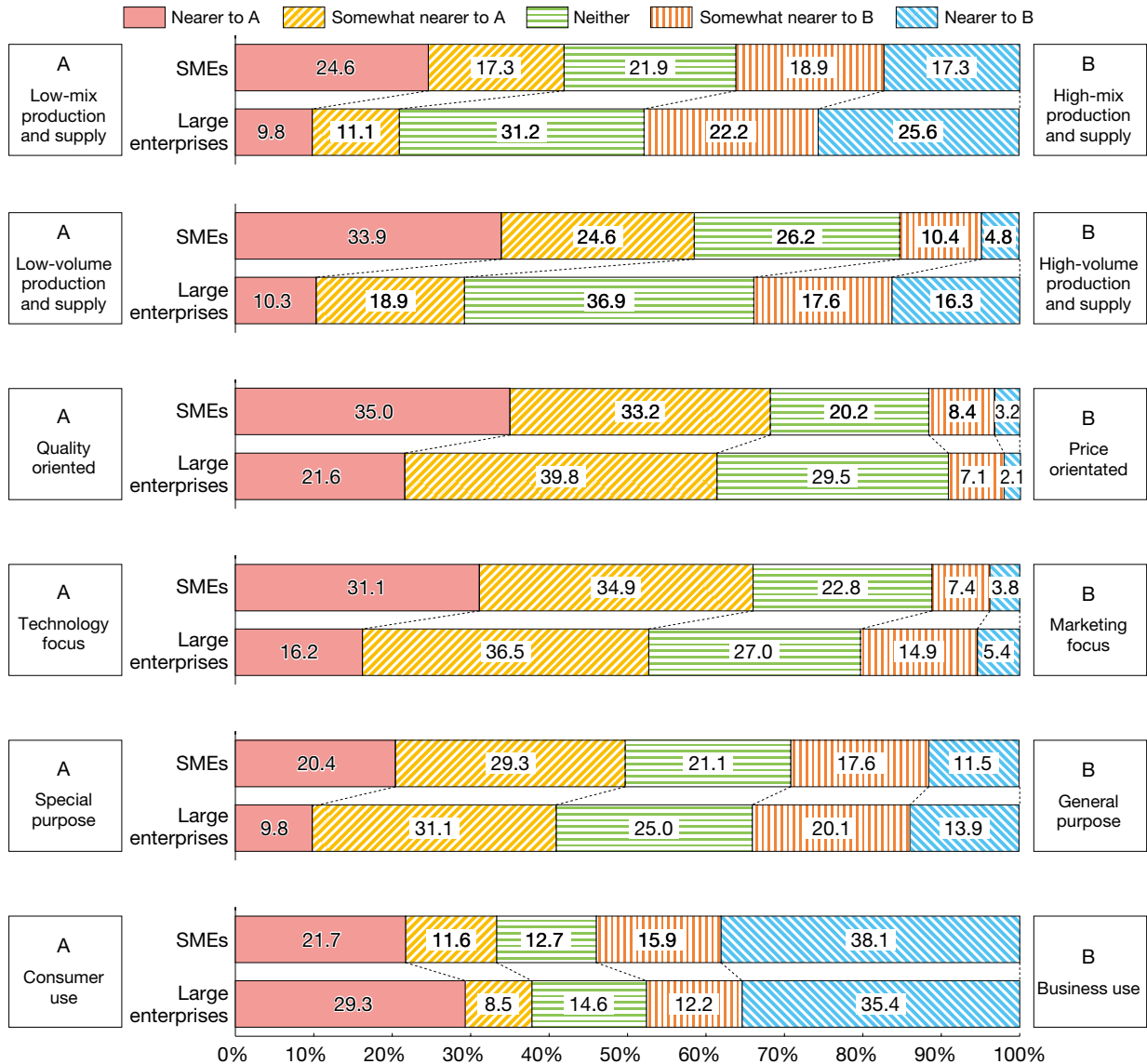
large enterprises regard as defining their products and services, and the markets in which they mainly do business. According to Fig. 2-1-36, higher proportions of SMEs regard their own goods and services as being nearer to "low-mix production and supply" than "high-mix production and supply," and nearer to "low-volume production and supply" than "high-volume production and supply." Regarding their own business policies, higher proportions see them as being more "quality oriented" than "price oriented," and having more of a "technology focus" than a "marketing focus." Concerning the goods and services in their markets, high proportions say that they are more "special purpose" than "general purpose," and for "business use" rather than "consumer use."

25) Asphalt, mixed rock and other hard surfaces.

26) See Appended Note 2-1-10.

**Fig. 2-1-36 Own characteristics and main markets of activity (products and services)**

SMEs are more likely to see their goods and services as being nearer to “low-mix production and supply” than “high-mix production and supply,” and nearer to “low-volume production and supply” than “high-volume production and supply.” Business policies tend to be more “quality oriented” than “price oriented,” and to have more of a “technology focus” than a “marketing focus,” and goods and services in SMEs’ markets are as seen as more “special purpose” than “general purpose,” and more for “business use” rather than for “consumer use.”



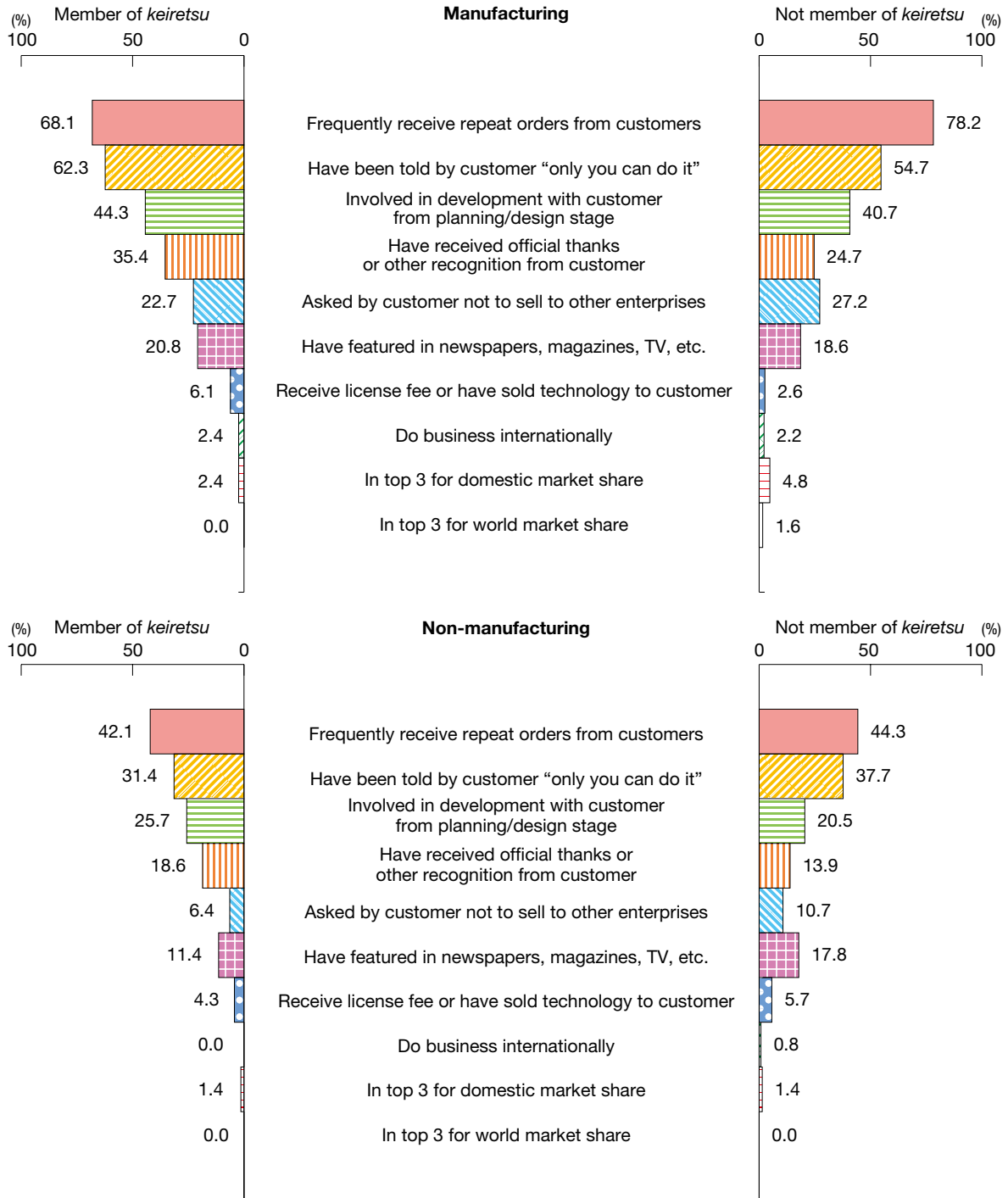
Source: MRI, Questionnaire Survey of Enterprises Supporting Industries and Communities (November 2010), commissioned by SME Agency.

Asked about demand for their own products, services, and technologies (Fig. 2-1-37), over 50% of SMMs and over 30% of small and medium non-manufacturers said, irrespective of *keiretsu* affiliation, that they “frequently receive repeat orders from customers” or “have been told by customer ‘only you can do it.’” This indicates that their services and technologies are held in high regard by the enterprises with which they do business. Fig. 2-1-14 similarly showed that high proportions of SMEs subjectively perceive themselves as contributing to the economy and society through the “provision of

products and services that are essential to industry.” Objectively as well, however, as Fig. 2-1-37 shows, the evidence indicates that SMEs provide products, services, and technologies that make them indispensable to their customers, regardless of whether they belong to *keiretsu* and which industries they belong to. SMEs underpin Japan’s industrial infrastructure in many ways, including by generating considerable value added and supporting industry supply chains, and the earthquake has served to reinforce recognition of this fact.

**Fig. 2-1-37 Demand for own products, services, and technologies (SMEs)**

Irrespective of *keiretsu* affiliation, over 50% of SMMs and over 30% of small and medium non-manufacturers say that they “frequently receive repeat orders from customers” and “have been told by customer ‘only you can do it.’”



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

Note: Totals do not necessarily sum to 100 due to multiple responses.

## Column 2-1-6 An SME that supported the historic achievements of the *Hayabusa* asteroid explorer

The *Hayabusa* asteroid explorer returned to earth in June 2010, after a roughly seven-year space voyage, carrying samples from the asteroid Itokawa, and became the first spacecraft in history to retrieve materials from an asteroid.

The asteroid Itokawa is believed to have retained its conditions ever since the solar system was formed. Analyses of the isotopic ratios, crystal structures and other properties of various elements on the asteroid may help explain the process whereby the solar system was formed, and there are expectations for the future research.

In December 2010, then Minister of State for Space Policy Banri Kaieda and Minister of Education, Culture, Sports, Science and Technology Yoshiaki Takaki awarded certificates of appreciation to the Japan Aerospace Exploration Agency (JAXA) *Hayabusa* Project Team and to the *Hayabusa* Project Support Team comprising companies and universities that supported the project.<sup>27)</sup>

SMEs accounted for approximately one-fourth of the 118 institutions on the support team. Specifically, SMEs were involved in producing the lubricant used on many of the explorer's moving components, the trial manufacturing of the sampling device, manufacturing of processed metal parts for the projection device, as well as development and manufacturing of the explorer's middle-gain and high-gain antennas, making great contributions to Japan's space development.

An exhibition of the capsule which brought home minute particles was attended by over 500,000 people nationwide, and multiple movie production companies have announced plans to make films of the *Hayabusa* project. In Japan, *Hayabusa* is still a social phenomenon.

The technologies held by Japan's SMEs are expected to continue providing a foundation for national growth.



The asteroid explorer *Hayabusa*  
Photo credit: Akihiro Ikegami

### Case 2-1-9

## A company with a 30% global share and a 60% domestic share of the alkaline battery insulating paper market

Hirose Paper Manufacturing Co., Ltd. is primarily engaged in manufacturing and sales of wet process bonded fabric using synthetic fiber and water<sup>28)</sup> in Tosa City, Kochi Prefecture with 35 employees and capital of ¥20 million.

The company's products cost about 10-20% more than those made by competitors, but they are superior in the safety aspects of preventing shorts and leakage, and hold a 30% global share and a 60% domestic share of the separator (alkaline battery insulating paper) market. Hirose Paper Manufacturing gains about 80% of its separator sales outside Japan, with exports to Asia, the U.S. and Europe.

The company manufactures diverse paper products aside from separators, including food product packaging, paper filters, business cards, tote bag fabric, and specialty paper for repairs to important cultural properties. They have the technologies to produce everything from the world's thinnest paper, which weighs just two grams per square meter, to products of various weights.

Hirose Paper Manufacturing has aimed at world-class technologies ever since the company was founded. The company is presently conducting research and development on separators for rechargeable batteries and lithium-ion batteries, and on more uniform bonded fabric using nanofiber technologies. They continue working intensely to boost their technological capabilities.



Battery (dry cell) separators

27) For details, see the Space Development Strategy Headquarters (Cabinet Office) web page:  
[http://www.kantei.go.jp/jp/singi/utyuu/daijin/101202\\_hayabusa.html](http://www.kantei.go.jp/jp/singi/utyuu/daijin/101202_hayabusa.html)

28) Wet process bonded fabric is also used as a separator to prevent batteries from shorting due to excess contact between the cathode and anode inside the battery. It provides higher density and more uniform pores compared with dry process bonded fabric.

**Case  
2-1-10**

**An SME that gained a 70% share of the domestic convenience store refrigerator and freezer case lighting market with a slim, energy-conservation fluorescent light bulb**

Prince Electric Co., Ltd. manufactures energy-conservation fluorescent light bulbs in Yokohama City, Kanagawa Prefecture, with 83 employees and capital of ¥47 million.

Prince Electric was founded in 1950. The company has been producing fluorescent light bulbs from the time when incandescent light bulbs were still the mainstream in Japan. When fluorescent light bulbs spread from industrial and commercial facilities to regular households, the market was monopolized by the major home electrical appliance manufacturers, leaving little room for participation by SMEs.

So Prince Electric chose to primarily focus on specialty fluorescent light bulbs not handled by the top companies. While standard fluorescent light bulbs have a diameter of 32.5mm, the company initiated production and sales of "slim" light bulbs with a diameter of 20.0mm. In 2004, they then developed their "new slim" light bulbs, with a diameter of 15.5mm. These "new slim" bulbs use 58% less glass and 53% less electricity compared with regular fluorescent light bulbs. They are highly competitive, even compared with LEDs, in terms of energy conservation, light quality, initial investment and other factors.

These energy conservation light bulbs are installed in aisles, electric signs, convenience store refrigerator and freezer cases and other cramped spaces, meeting the need for constant lighting. As one of Prince Electric's main products, they have won an approximately 70% share of Japan's domestic convenience store lighting market.

Recently, the company has also been focusing on the development of commercial facility shelf lighting LED systems and LEDs for refrigerator and freezer cases to meet wide-ranging customer needs.



The light-bulb diameter is less than the diameter of a one-yen coin

**Case  
2-1-11**

**A company which created a cultural phenomenon by developing a machine to fold pocket tissues**

Meisei Sansho Co., Ltd. produces all types of tissues and face masks in Kochi City, Kochi Prefecture with 385 employees and capital of ¥98 million.

The company was established in 1968 by the founder, who was working at a firm which made traditional Japanese paper. Inspired by the standard-size boxes of tissues imported from the U.S., Meisei Sansho developed and manufactured machinery that folds tissues into pocket-size packets. This created the cultural phenomenon of using pocket tissues as an advertising medium.

Since that time, Meisei Sansho has remained a manufacturer that makes its own production equipment. The company has grown by responding to customer needs and issues.

Meisei Sansho has been working to expand its markets by developing wet tissues and tissues with skin toner, as well as products approaching the medical and pharmaceutical fields. Meisei Sansho's technologies and production capabilities have been highly regarded by large corporations. In fact, Meisei Sansho produces high-performance face masks sold by leading companies on an OEM basis. As the demand for pocket tissues is now sharply declining, the company is pursuing higher quality products to avert price competition. With its pioneering spirit, Meisei Sansho plans to continue developing new markets to meet consumer needs.



Tissue-folding machinery developed by Meisei Sansho

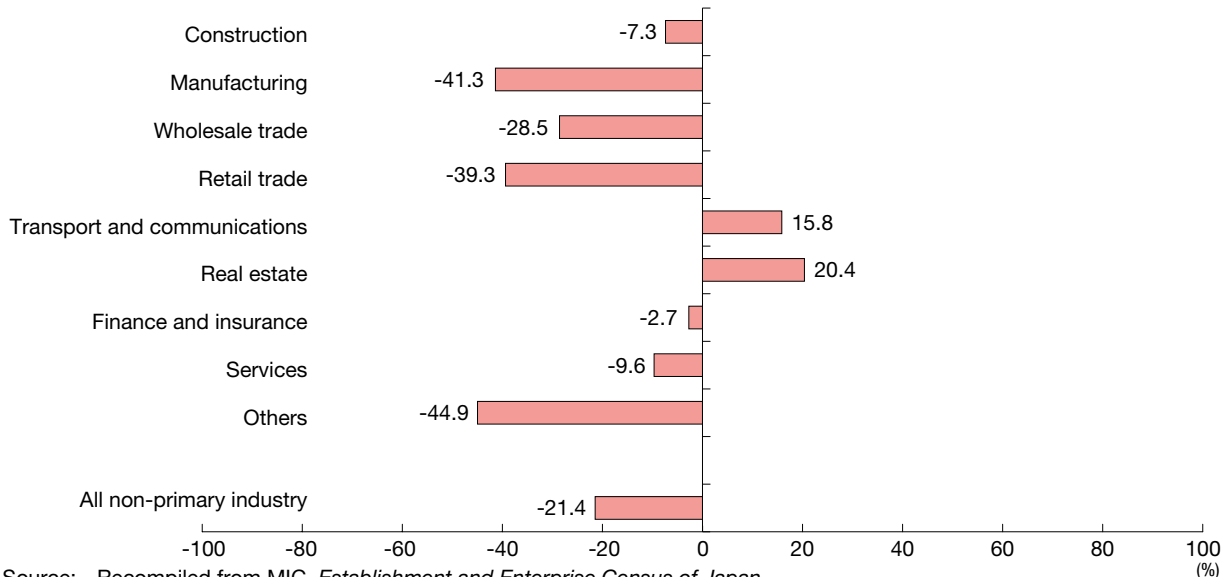
**[3] Challenges and responses**

In Section 2, we focused on the position of SMEs and the importance of their products, etc. The number of SMEs

continues to decline, falling by some 20% between 1986 and 2006, and the decline has been particularly marked in manufacturing and the retail trade, where numbers have declined by around 40% (Fig. 2-1-38).<sup>29)</sup>

**Fig. 2-1-38 Number of SMEs (1986-2006)**

The number of SMEs continues to decline, falling by some 20% between 1986 and 2006, and the decline has been particularly marked in manufacturing and the retail trade, where numbers have declined by around 40%.



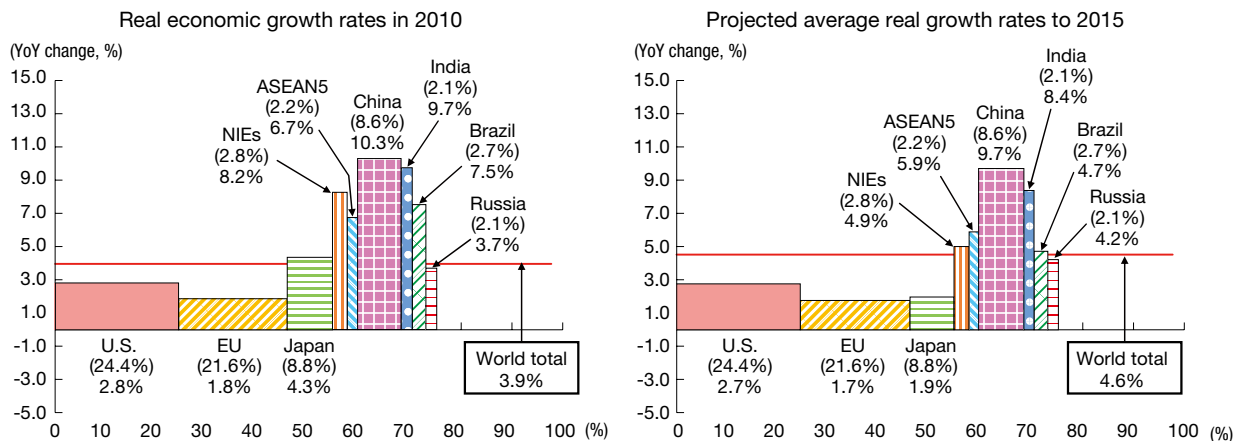
Source: Recompiled from MIC, *Establishment and Enterprise Census of Japan*.  
 Note: Only SMEs are included in the above.

From the future trends in world markets shown in Fig. 2-1-39, it is apparent that markets are projected to grow in emerging countries and shrink in developed countries. The

Japanese market is expected to remain largely unchanged in size.

**Fig. 2-1-39 Projected real GDP growth rates of selected countries (2010-2015)**

The world economy is projected to exhibit continued growth driven mainly by emerging countries, but growth in developed countries will remain low.



Sources: Compiled from IMF, *World Economic Outlook Update January 2011* and *World Economic Outlook Database, 2010 October Edition*.

- Notes: 1. The horizontal axes and figures in parentheses indicate each economy's share of world nominal GDP in 2009. Annual average real economic growth rates until 2015 indicate annual average real GDP growth up to 2015 using 2009 as the base year.
- 2. The ASEAN5 are: Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.
- 3. The above figures are based on market rates.

29) Recent years have witnessed significant declines in the number of manufacturing establishments in some of Japan's foremost clusters of SMEs in cities such as Ota in Tokyo, Hamamatsu in Shizuoka Prefecture, and Higashiosaka in Osaka Prefecture. See Subsection 1 of Section 2 in Chapter 2 of Part II.

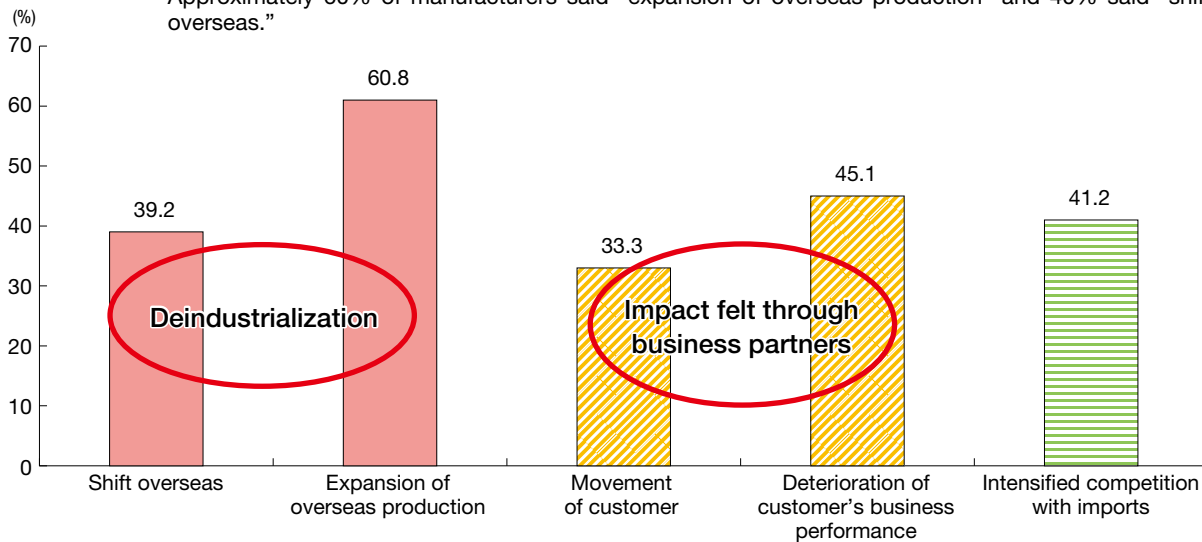


As observed in Part I, the yen is currently appreciating rapidly, hitting a postwar momentary high of ¥76.25 to the U.S. dollar on March 17, 2011, in the immediate wake of the earthquake. Fig. 2-1-40 summarizes the results of a METI survey of the effects of the strong yen. This shows

that approximately 60% of manufacturers responded “expansion of overseas production” and approximately 40% responded “shift overseas.” This raises the specter of accelerating deindustrialization in Japan if the yen continues to appreciate.

**Fig. 2-1-40 Impact of strong yen (if remains at ¥85 to the U.S. dollar)**

Approximately 60% of manufacturers said “expansion of overseas production” and 40% said “shift overseas.”



Source: METI, *Emergency Interviews on Impact of Strong Yen*.

Notes: 1. Survey period: August 11-24, 2010.

2. Enterprises surveyed: 102 enterprises consisting mainly of exporters in manufacturing (but including also wholesalers, retailers, and other non-manufacturers). Direct feedback was also obtained through interviews with SMEs (including subcontractors) via individual Regional Bureaus of Economy, Trade and Industry.

3. Exchange rate during the survey period (closing values at 17:00 on the Tokyo market):

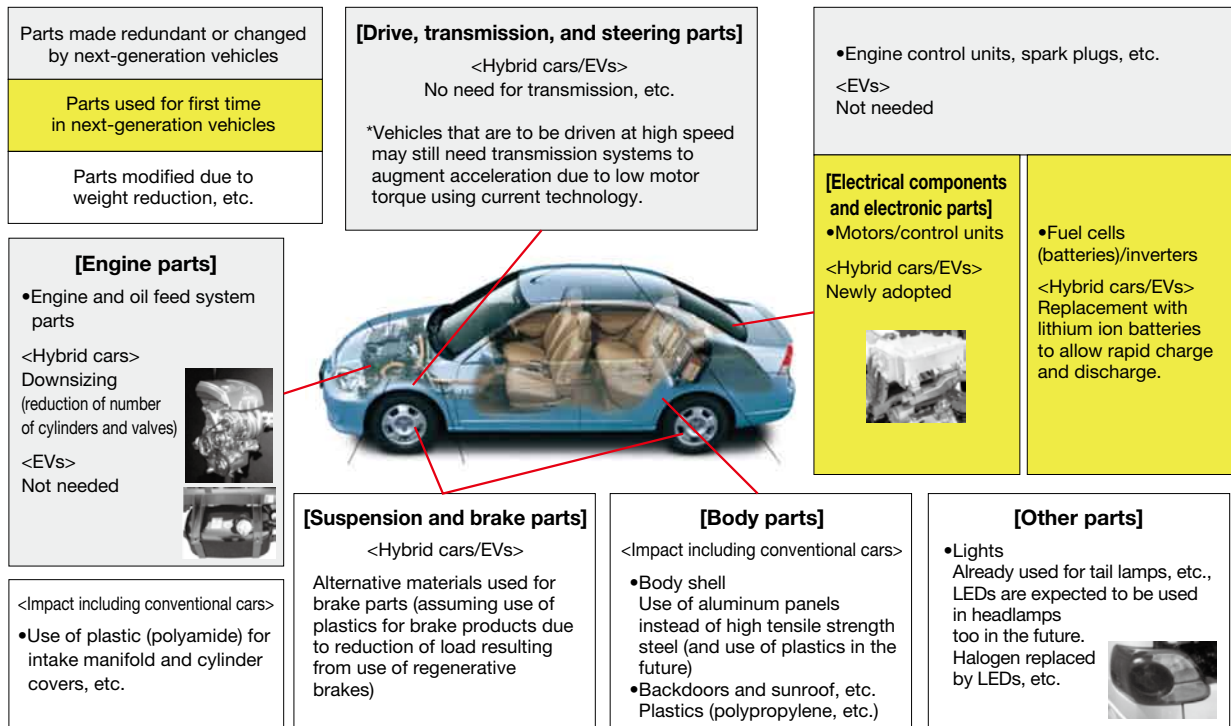
Yen/U.S. dollar: US\$1 = ¥85.92 (lowest: August 13) to ¥84.55 (highest: August 24)

Yen/euro: 1 euro = ¥111.16 (lowest: August 11) to ¥106.74 (highest: August 24)

New products, services and technologies are also emerging by the day, creating the risk that existing products, services, and technologies may be made obsolete. Let us consider, for instance, the effects of the spread of next-generation vehicles such as electrical vehicles (EVs), summarized in Fig. 2-1-41. Assuming that 30,000 parts

are used per vehicle, the spread of EVs would render approximately 40% of these parts redundant. Although it would depend on how popular EVs become, their spread could have a major impact on manufacturers of parts such as engine parts, drive and transmission parts, and steering parts.

**Fig. 2-1-41 Impact of EVs, etc. (changes to vehicle parts)**



**Parts expected to be made redundant by EVs**

	% of all parts used in gasoline car	% made redundant by EVs	Number of parts where total = 30,000	Number of parts made redundant by EVs
Engine parts	23%	23%	6,900	6,900
Drive, transmission, and steering parts	19%	7%	5,700	2,100
Suspension and brake parts	15%	0%	4,500	0
Body parts	15%	0%	4,500	0
Electrical components and electronic parts	10%	7%	3,000	2,100
Other parts	18%	0%	5,400	0
<b>Total</b>	<b>100%</b>	<b>37%</b>	<b>30,000</b>	<b>11,100</b>

Source: METI, *New Vision for the Sokeizai Industry (Addendum)*(June 2006).  
 1. Figures are based on use of a total of 30,000 parts in a single automobile.  
 2. Compiled based on data from the Japan Auto Parts Industries Association.

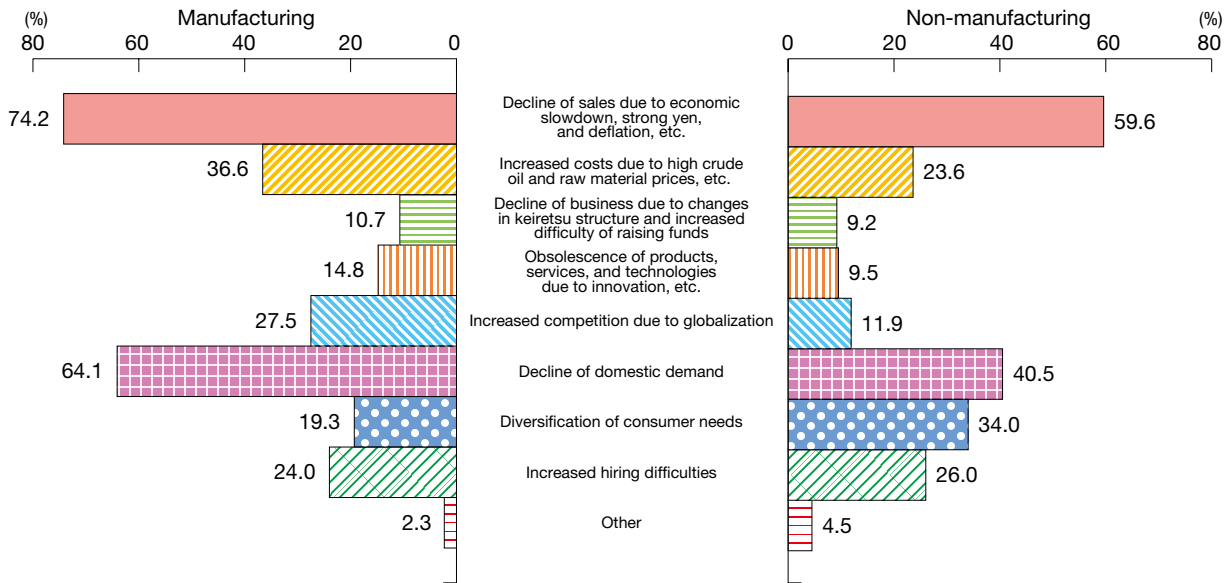
Above, we showed that the number of SMEs is declining, and examined the changes in the environment faced by SMEs, including the shift of growth from developed countries (including Japan) to emerging countries, domestic deindustrialization due to the yen's rapid appreciation, and obsolescence caused by changes in products, technologies and services. What outlook do SMEs have, then, given this environment? To answer this question, we look below at the challenges faced by SMEs and their intended responses in the future.

Fig. 2-1-42 shows the challenges that enterprises

consider themselves to face. The commonest challenge cited by both SMMs and small and medium non-manufacturers is "decline of sales due to economic slowdown, strong yen, and deflation, etc.," followed by "decline of domestic demand." Breaking down the responses by industry, high proportions of SMEs chose "increased competition due to globalization" in manufacturing, and "diversification of consumer needs" in non-manufacturing. Following the earthquake, these challenges are likely to have been further exacerbated.

**Fig. 2-1-42 Challenges faced by own enterprise (SMEs)**

High proportions of SMEs in both manufacturing and non-manufacturing cite “decline of sales due to economic slowdown, strong yen, and deflation, etc.,” followed by “decline of domestic demand.”



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

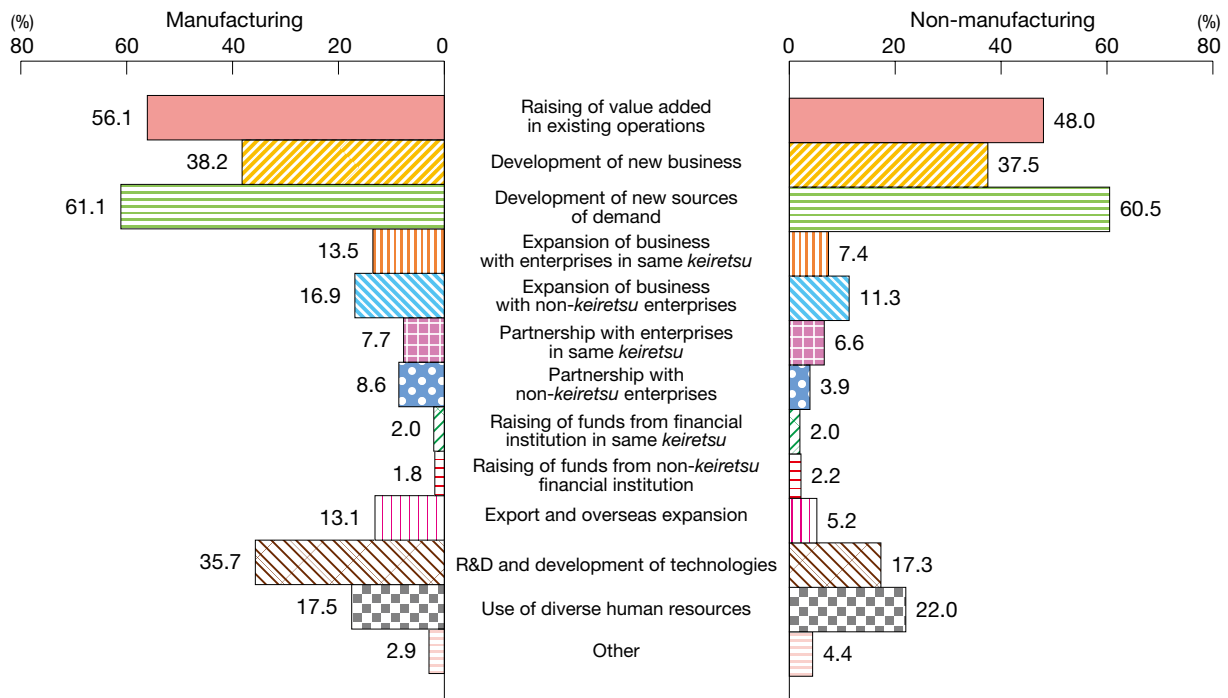
Note: Totals do not necessarily sum to 100 due to multiple responses.

How do SMEs intend to tackle the challenges identified in Fig. 2-1-42? Fig. 2-1-43 shows that among SMEs in both manufacturing and non-manufacturing, approximately 60% said that they would do so through “development of new sources of demand,” while

approximately 50% answered “raising of value added in existing operations.” Broken down by industry, high proportions of SMEs said “R&D and development of technologies” in manufacturing, and “hiring of diverse human resources” in non-manufacturing.

**Fig. 2-1-43 Action to take in the future (SMEs)**

Among SMEs in both manufacturing and non-manufacturing, approximately 60% answered “development of new sources of demand,” while approximately 50% answered “raising of value added in existing operations.”



Source: MRI, *Questionnaire Survey of Enterprises Supporting Industries and Communities* (November 2010), commissioned by SME Agency.

Note: Totals do not necessarily sum to 100 due to multiple responses.

As was demonstrated in Chapter 2 of Part I, the March 11 earthquake has had an unprecedentedly serious and wide-ranging impact on Japan's SMEs. As observed so far, SMEs underpin the Japanese economy and society, and they have an absolutely crucial role to play in getting the Japanese economy back on track after the earthquake. In historical terms as well, Japan's SMEs have surmounted

numerous trials and made major contributions to Japanese industry. Now more than ever, we need these SMEs, as the bedrock of Japanese industry, to display even higher levels of determination, efforts and creativity to grow further and contribute to the recovery and development of the Japanese economy.

## Case 2-1-12

### An industrial furnace manufacturer involved with the production of key parts for electric cars, which has grown by supplying companies in advanced technology fields

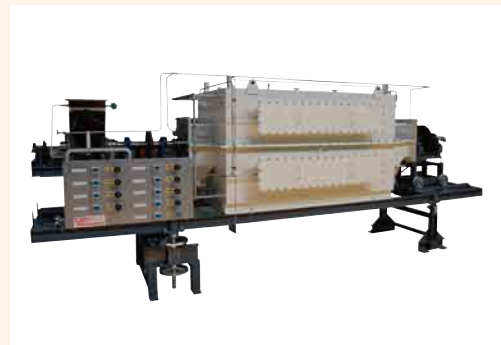
Takasago Industry Co., Ltd. is a company producing industrial furnaces (kilns) in Toki City, Gifu Prefecture with 325 employees and capital of ¥200 million which has become involved with the production of materials for the lithium-ion batteries used in electric cars.

Takasago Industry was founded in 1953 and began from manufacturing commercial ceramics kilns. The company advanced overseas from the 1970s with the export of ceramics plants to South Korea and Taiwan, and then on to Southeast Asia, India, the Middle and Near East, Latin America, Africa, Europe and the U.S.

They began producing kilns for fine ceramics from the mid-1980s, and introduced a CAD system in 1990. Takasago Industry is now engaged in every aspect of the development, design, manufacturing, testing and installation of heat treatment furnaces by way of gas, electricity, etc. They have established a proven record of delivering furnaces with cutting-edge technologies to diverse customers year after year.

Takasago Industry's heat-treatment furnaces have been used in a variety of manufacturing fields, including the production of automobile parts. The company is now responding to increasing new demand from manufacturers of lithium-ion battery materials.

Takasago Industry began selling the industrial furnaces required for the production of battery materials for cell phones and personal computers and lithium-ion battery materials for electric cars from 2007. In particular, electric car batteries are attracting a great deal of attention as an area where demand is expected to increase, and may be considered a promising business field for the company. Takasago Industry is always deeply involved with the production of state-of-the-art products through its strengths in integrated development, design and manufacturing.



Electric furnace developed by Takasago Industry Co., Ltd.

**Case  
2-1-13**

**A company aiming to become a gateway for the Sabae eyeglasses industry by transmitting videos of their processing works online**

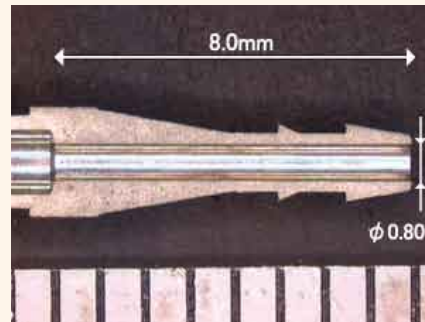
Nishimura Co., Ltd. produces hinges<sup>30)</sup> and screws used in the local eyeglass industry and other precision processed items in Sabae City, Fukui Prefecture with 30 employees and capital of ¥15 million.

With the slump in eyeglass production in Japan from the rise of Chinese manufacturers, Nishimura began transmitting videos of its titanium alloy precision processed parts manufacturing technology on the Internet in an effort to gain new customers nationwide. Titanium alloys provide superior strength, lightness, corrosion resistance and heat resistance, but they are difficult to refine and process. Because of their high price, titanium alloys are used in high-performance parts for airplanes, submarines and automobiles, and in parts for high-grade eyeglasses and high-priced golf clubs. Nishimura, which is engaged in the precision processing of titanium alloys, realized that the general image of these alloys is that they are expensive and difficult to process.

As a result of transmitting video footage showing its technologies on the Web, Nishimura has been receiving inquiries from various companies nationwide about product and parts production using titanium processing. This has reminded the company that their processing technologies can lead to diverse business opportunities in different industries.

Because these inquiries include some that Nishimura cannot respond to using only their own technologies, the company has begun outsourcing to local eyeglass processing firms which have various processing technologies, gradually increasing their customer bases.

Nishimura now intends to serve as a hub connecting nationwide companies with local firms. This contributes to revitalizing the local economy by expanding orders received by local SMEs.



Micro diameter deep hole processing of titanium alloy with a diameter of 0.8mm and a depth of 8.0mm using a Numerical Control (NC) Lathe

**Case  
2-1-14**

**A company that conducted R&D and successfully established a new business in the medical equipment field**

Trust Medical, Inc. produces medical equipment and testing kits in Kasai City, Hyogo Prefecture with 20 employees and capital of ¥50 million.

Trust Medical was originally engaged in die manufacturing and mold processing. As future growth looked weak due to intensified domestic and international competition, the company wanted to launch a new business. In a process of repeated trial and error, they collected ideas from inside and outside the company, with the president personally examining the business potential of the proposals. During this process, an employee heard one of his former professors say "If the DNA culturing technologies being researched can be accelerated, that will dramatically increase the speed of indentifying human and animal diseases. It would generate great effects such as facilitating early treatment and preventing the spread of disease."

Looking at the know-how and personnel required for information collection and technology development, the company concluded that in-house development would be possible and decided to try and turn this into a new business. Trust Medical raised the funds required for new technology development within their corporate group. They prepared an environment where the developers could fully devote themselves to product development, made use of the manufacturing know-how which has been a main focus since the company was founded, and developed ultra-fast gene testing technology for influenza and other pathogenic viruses.

This testing technology can identify pathogenic viruses within 10-20 minutes, and is expected to prevent the spread of diseases. While conducting demonstration tests, Trust Medical has been marketing their testing technology to medical professionals, which has gradually increased awareness of its effects. Trust Medical is now working in collaboration with leading manufacturers and medical institutions toward even faster DNA culturing.



Ultra-fast gene testing kit developed by Trust Medical

30) Eyeglass hinges are parts that connect the front of the eyeglasses (rims, lenses, etc.) with the temple arms which hang over the ears, so that eyeglasses can be folded freely.

## Section 3 SMEs as the bedrock of communities

In the preceding section, we demonstrated the importance of SMEs, as the bedrock of industry, to supporting the Japanese economy and society, and indicated that the restoration of SMEs would be crucial for the Japanese economy to get back on track following the Great East Japan Earthquake. Focusing on the retail

trade, we turn our attention in this section to the important role played by SMEs in sustaining community life, both as linchpins of local demand and as hubs of local communities. We then examine how the environment faced by small and medium retailers is changing, and how they are responding to these changes.

### [1] Position of small and medium retailers

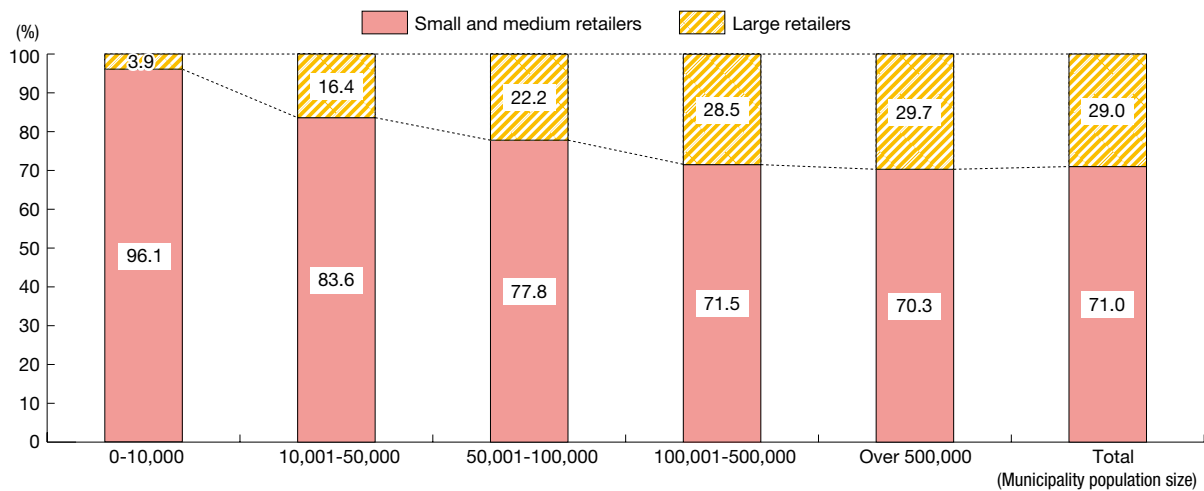
#### ● Small and medium retailers as the bedrock of communities

Fig. 2-1-44 shows small and medium retailers' share

of total sales by municipality population size. As small and medium retailers account for approximately 70% of retail sales, and this proportion is higher in smaller municipalities, they clearly play a key role in sustaining local consumption.

**Fig. 2-1-44 Small and medium retailers' share of total sales**

Small and medium retailers account for around 70% of retail sales, and this proportion is higher in smaller municipalities.



Sources: METI, *2007 Census of Commerce*; MIC, *Populations, Vital Statistics, and Numbers of Households Based on Basic Resident Registers* (as of March 31, 2007).

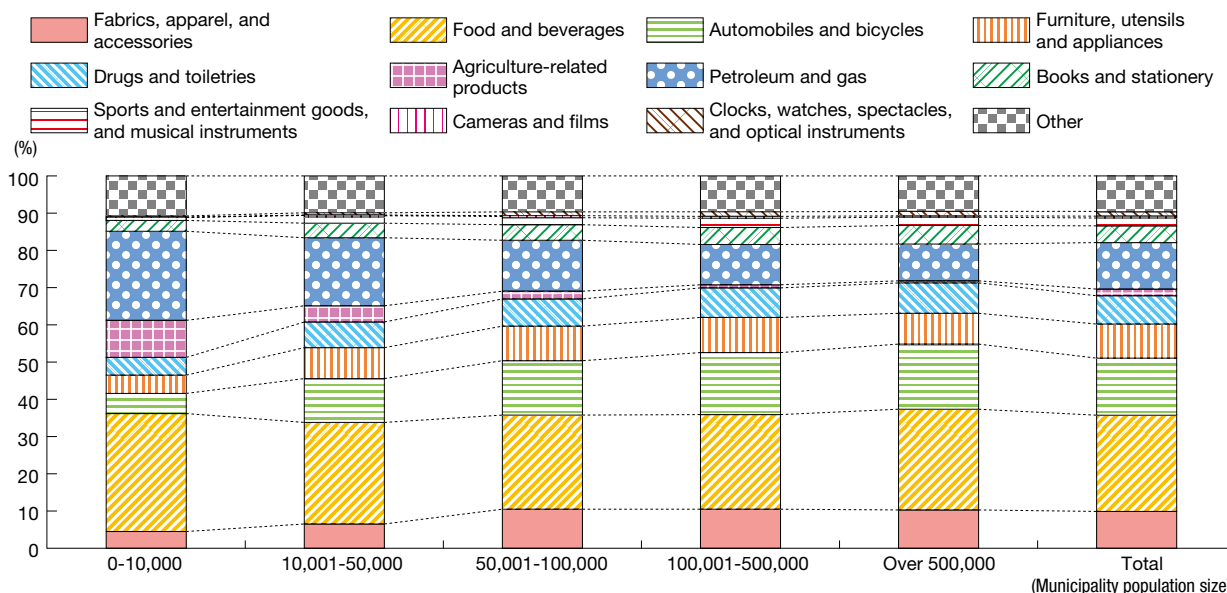
Note: Small and medium retailers are establishments with 50 or fewer workers.

A breakdown of small and medium retailer sales by category of items reveals higher proportions of sales to be accounted for by food, beverages, petroleum and gas

in municipalities with fewer inhabitants, indicating that small and medium retailers play a key role in supplying such daily necessities (Fig. 2-1-45).

**Fig. 2-1-45 Breakdown of small and medium retail sales by category of items**

Products such as food, beverages, petroleum and gas make up higher proportions of sales in smaller municipalities, reflecting the importance of the role played by small and medium retailers in supplying daily necessities.



Sources: METI, *2007 Census of Commerce*; MIC, *Populations, Vital Statistics, and Numbers of Households Based on Basic Resident Registers* (as of March 31, 2007).

Note: Small and medium retailers are establishments with 50 or fewer workers.

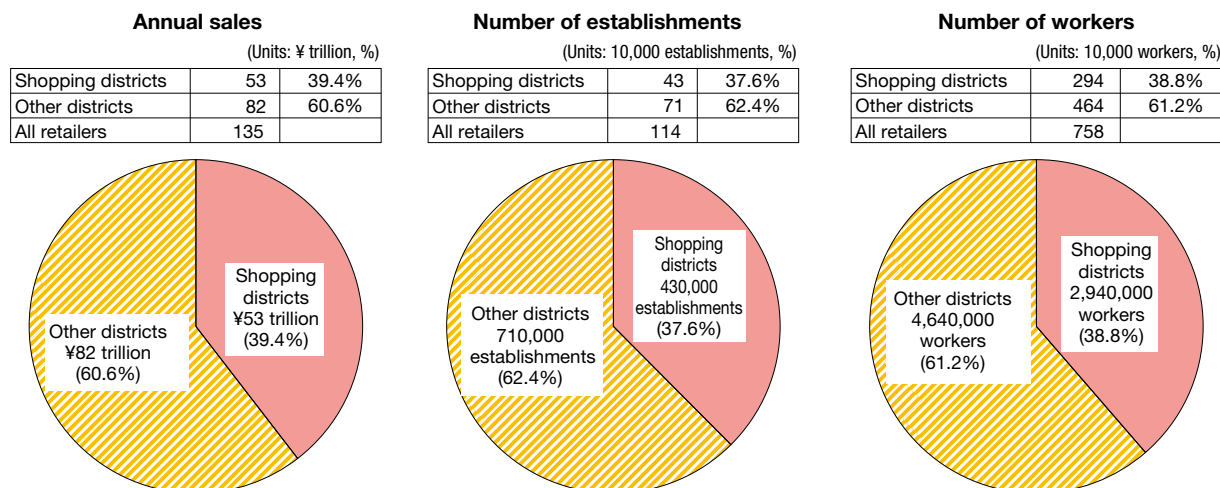
As observed in Chapter 2 of Part I, numerous small urban employment areas (UEAs) are to be found in the regions devastated by the tsunami, and it is likely that small and medium retailers were supplying daily necessities to local residents. One of the ways in which small and medium retailers sustain local communities is through their formation of shopping districts, and below we examine the current state of these districts.

● **Current state of shopping districts**

Fig. 2-1-46 shows the proportions of annual sales, number of establishments and workers in the retail trade that are accounted for by small and medium retailers in shopping districts. In each case, shopping districts make up around 40% of the total, which is indicative of the importance of the role that they play.

**Fig. 2-1-46 Economic position of shopping districts**

Shopping districts account for some 40% of annual sales, number of establishments and workers in the retail trade.



Source: METI, *2007 Census of Commerce: Statistics by Characteristics of Location (Retail Trade)*.

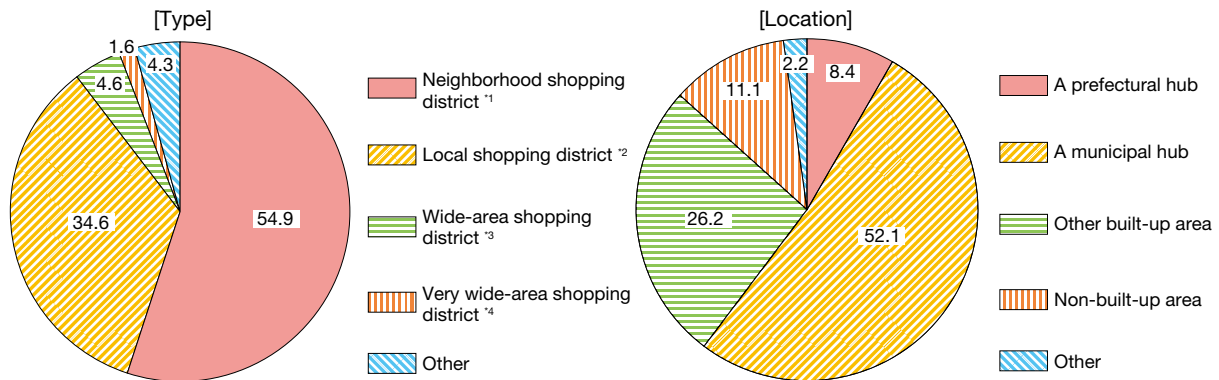
We now examine the current state of shopping districts drawing principally on the results of the “National Shopping District Survey.”<sup>31)</sup>

Grouping shopping districts into five types according to the extent of their retail trade areas (neighborhood shopping districts,<sup>32)</sup> local shopping districts,<sup>33)</sup> wide-area shopping districts,<sup>34)</sup> very wide-area shopping districts,<sup>35)</sup> and others), Fig. 2-1-47 shows the proportions of each

and their locations. This shows that a large proportion of shopping districts have close local ties, with neighborhood shopping districts (54.9%) and local shopping districts (34.6%) together accounting for around 90% of the total. The commonest type of location is “a municipal hub,” accounting for 52.1% of the total, followed by “other built-up area.” Around 90% of shopping districts are thus located in hubs or other built-up areas.

**Fig. 2-1-47 Types and locations of shopping districts**

Neighborhood shopping districts (54.9%) and local shopping districts (34.6%) together account for some 90% of the total, reflecting the preponderance of close local ties. Around 90% are located in hubs or other built-up areas.



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

- Notes:
1. “Neighborhood shopping districts” here means shopping districts selling mostly food and convenience goods that can be reached on foot or by bicycle, etc.
  2. “Local shopping districts” here means shopping districts containing a mixture of stores selling convenience and shopping goods (fashion wear, furniture, home appliances, etc.) that are slightly larger than neighborhood shopping districts and that can be reached on foot or by bicycle or bus, etc.
  3. “Wide-area shopping districts” here means shopping districts containing large stores (including department stores and big-box stores) where consumers tend to shop more for shopping goods than convenience goods.
  4. “Very wide-area shopping districts” here means shopping districts containing large stores (including department stores and big-box stores) that consist mostly of well-known and high-end specialist stores and attract shoppers from some distance.

We consider next the types of goods and services sold and furnished by shopping districts. From the figures on the presence of various types of sales outlets in shopping districts in Fig. 2-1-48, it can be seen that there are high proportions of merchandise outlets selling goods such as prepared foods and bread, fresh foods, rice

and alcoholic beverages, and apparel and fashion items, and high proportions of service outlets providing barber/hairdressing and beauty treatment services, and laundry and repair services. They tend, in other words, to provide convenience goods<sup>36)</sup> rather than shopping goods.<sup>37)</sup>

31) Commissioned by the SME Agency and conducted by MRI, this consisted of a questionnaire survey of 8,053 shopping districts, 530 businesses in shopping districts, and 3,120 consumers, and was conducted in November 2010. The response rates were 22.4% for shopping districts and 25.8% for businesses in shopping districts. A total of 3,120 consumers were surveyed online, the sample being designed to ensure equal numbers of responses from each of five age groups for men and women (20-29, 30-39, 40-49, 50-59, and 60 and over) and six regions (Hokkaido/Tohoku, Kanto, Chubu, Kinki, Chugoku/Shikoku, and Kyushu/Okinawa). It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

32) “Neighborhood shopping districts” here means shopping districts selling mostly food and convenience goods that can be reached on foot or by bicycle, etc.

33) “Local shopping districts” here means shopping districts containing a mixture of stores selling convenience and shopping goods (fashion wear, furniture, home appliances, etc.) that are slightly larger than neighborhood shopping districts and that can be reached on foot or by bicycle or bus, etc.

34) “Wide-area shopping districts” here means shopping districts containing large stores (including department stores and big-box stores) where consumers tend to shop more for shopping goods than convenience goods.

35) “Very wide-area shopping districts” here means shopping districts containing large stores (including department stores and big-box stores) that consist mostly of well-known and high-end specialist stores and attract shoppers from some distance.

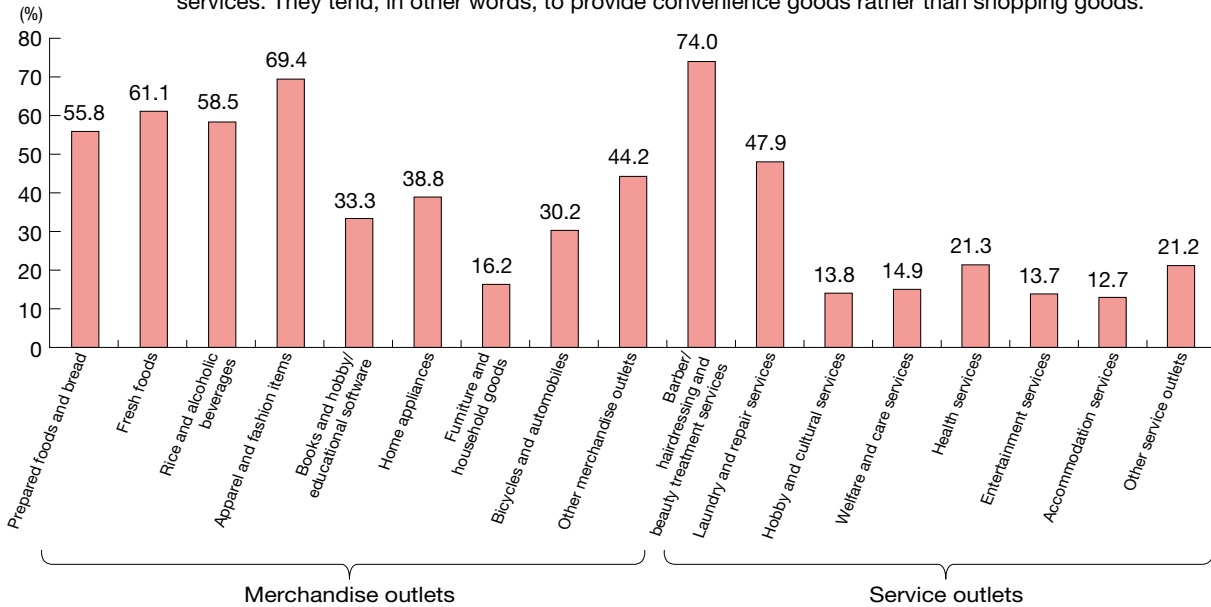
36) “Convenience goods” are goods such as foods and sundry supplies that are purchased regularly.

37) “Shopping goods” are goods such as fashion items, furniture, and home appliances that consumers search for and compare by visiting a number of shops.



**Fig. 2-1-48 Types of sales outlets located in shopping districts**

There are high proportions of merchandise outlets selling goods such as prepared foods and bread, fresh foods, rice and alcoholic beverages, and apparel and fashion items, and high proportions of service outlets providing barber/hairdressing and beauty treatment services, and laundry and repair services. They tend, in other words, to provide convenience goods rather than shopping goods.



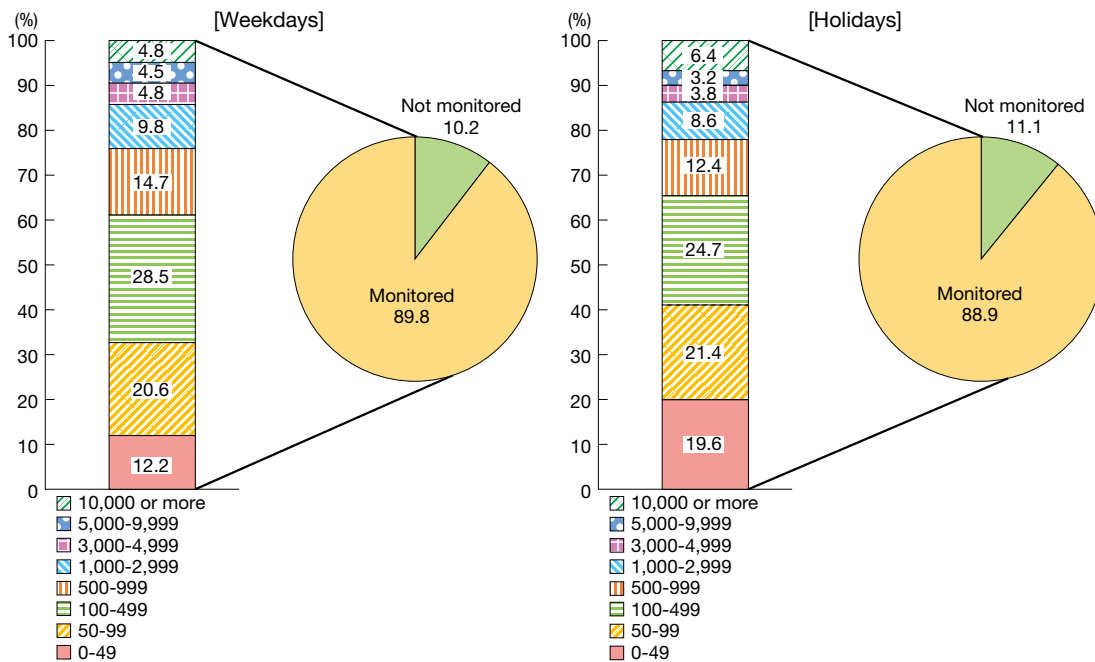
Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

We look next at the number of pedestrians in shopping districts. Fig. 2-1-49 shows average footfall per day. Although around 10% of shopping districts do not monitor footfall, commonest among those that do is “100-499”

on both weekdays and holidays, with shopping districts with a footfall of less than 500 making up over 60% of the total.<sup>38)</sup>

**Fig. 2-1-49 Average footfall per day**

Although around 10% of shopping districts do not monitor footfall, commonest among those that do is “100-499” on both weekdays and holidays, with shopping districts with a footfall of less than 500 making up over 60% of the total.



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

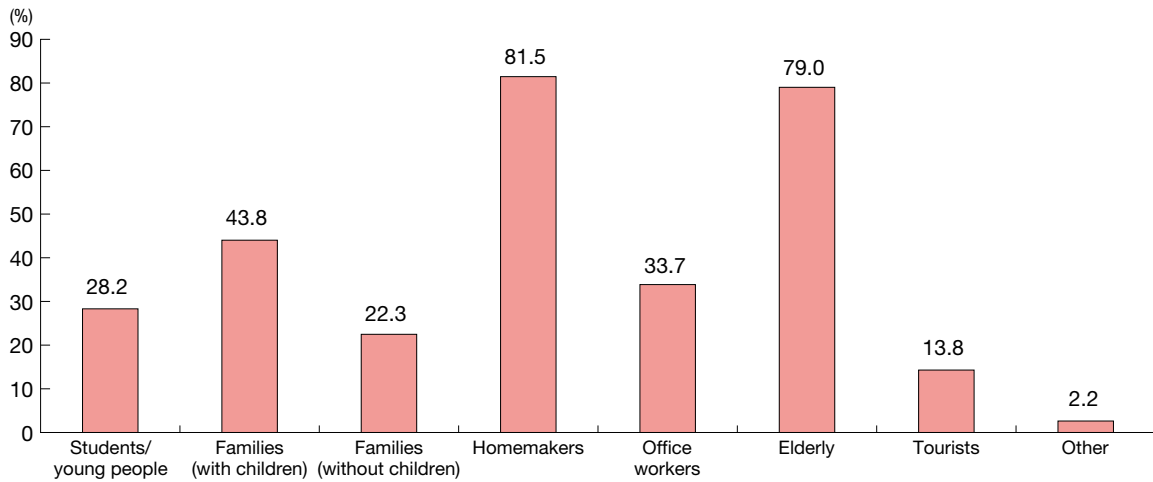
38) The commonest non-store attractions at shopping districts with core attractions that attract pedestrians are train and bus stations. However, these account for less than 30% (25.7%) at most. See Appended Note 2-1-11.

Having seen how these small and medium retailers forming shopping districts sustain local consumption, the next question we consider is: Who shops in shopping districts and how much time do they spend doing so?

Fig. 2-1-50 shows the main categories of shoppers who visit shopping districts, from which it can be seen that they are visited by conspicuously higher proportions of homemakers and the elderly (approximately 80%).

**Fig. 2-1-50 Main categories of visitors to shopping districts**

Noticeably higher proportions (approximately 80%) of homemakers and elderly people at shopping districts



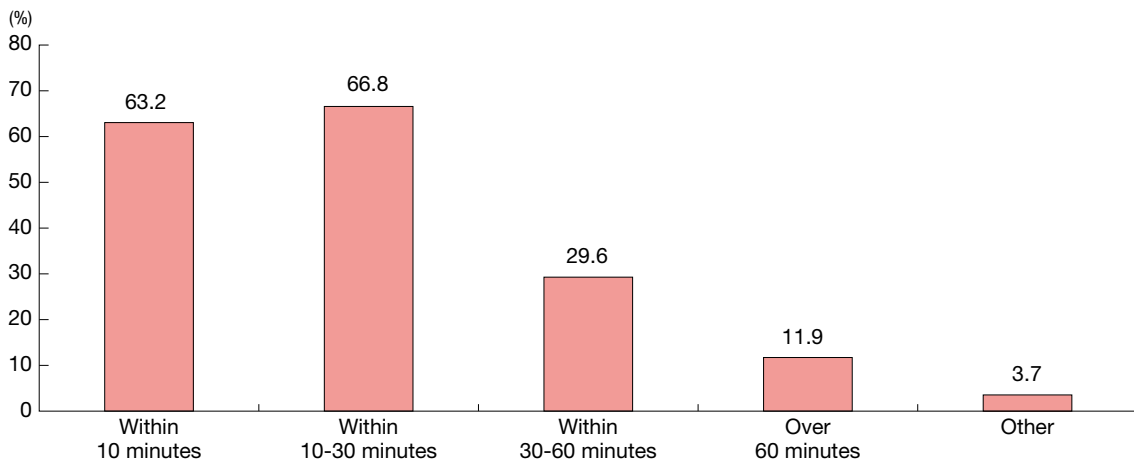
Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

Regarding travel time from home to shopping district, high proportions of visitors are nearby residents living

“within 10-30 minutes” (66.8%) or “within 10 minutes” (63.2%) (Fig. 2-1-51).

**Fig. 2-1-51 Travel time from home to shopping district**

High proportions of shoppers are nearby residents living “within 10-30 minutes” (66.8%) or “within 10 minutes” (63.2%).



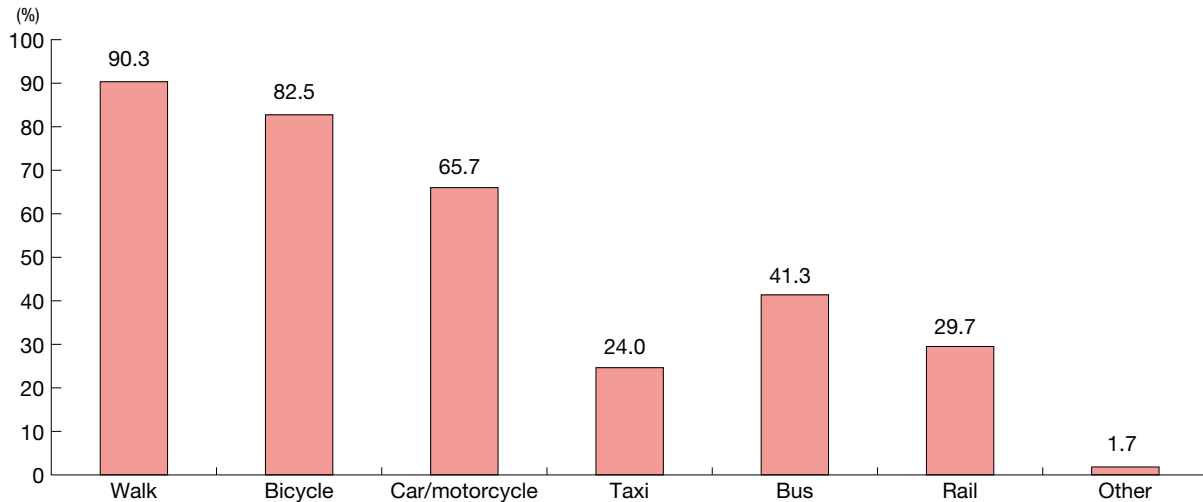
Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

We look next at what means of transport these shoppers use to visit shopping districts. According to Fig. 2-1-52, the commonest principal means of transport from home

to shopping district are walking (approximately 90%) and cycling (approximately 80%).

**Fig. 2-1-52 Principal means of transport from home to shopping district**

High proportions walk (approximately 90%) or cycle (approximately 80%).



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

To summarize, many visitors to shopping districts are homemakers and elderly people living within 30 minutes who visit on foot or by bicycle.

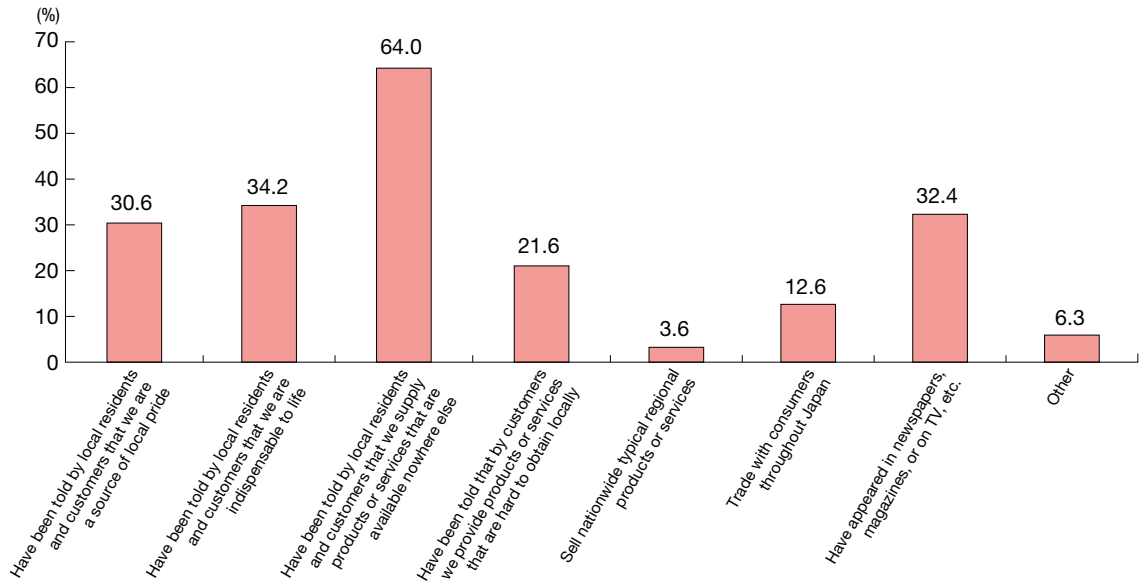
Now let us look at how visitors regard the goods and services that businesses in shopping districts themselves sell and supply.

According to Fig. 2-1-53, the commonest response, cited by 64.0% of businesses, is “have been told by local residents and customers that we supply products or

services that are available nowhere else.” “Have been told by local residents and customers that we are indispensable to life,” “have appeared in newspaper, magazine, or on TV, etc.,” and “have been told by local residents and customers that we are a source of local pride” were also each cited by approximately 30% of respondents, indicating that businesses in shopping districts are regarded by local residents and customers as an essential presence.

**Fig. 2-1-53 Products and services sold and furnished by businesses in shopping districts**

The commonest response, cited by 64.0%, is “have been told by local residents and customers that we supply products or services that are available nowhere else.”



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

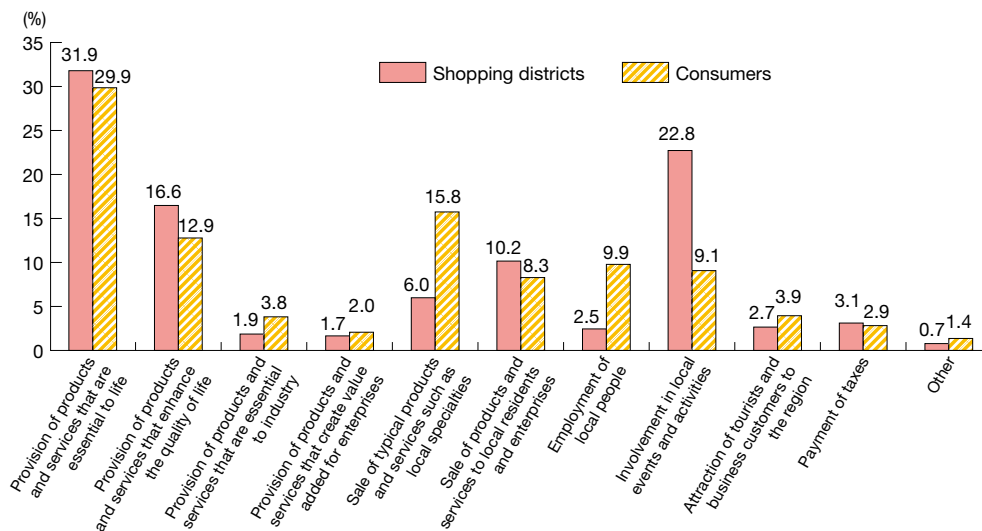
Note: Totals do not necessarily sum to 100 due to multiple responses.

Regarding shopping districts' contributions to the economy and society, approximately 30% of both shopping districts and consumers see them as contributing through the “provision of products and services that are essential to life.” Furthermore, while a high proportion of

shopping districts cite their “involvement in local events and activities,” a high proportion of consumers cite “sale of typical regional products or services such as local specialties” (Fig. 2-1-54).

**Fig. 2-1-54 Shopping districts' contributions to the economy and society**

Approximately 30% of both shopping districts and consumers see shopping districts as contributing through the “provision of products and services that are essential to life.” Furthermore, while a high proportion of shopping districts cite their “involvement in local events and activities,” a high proportion of consumers cite “sale of typical regional products or services such as local specialties.”



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

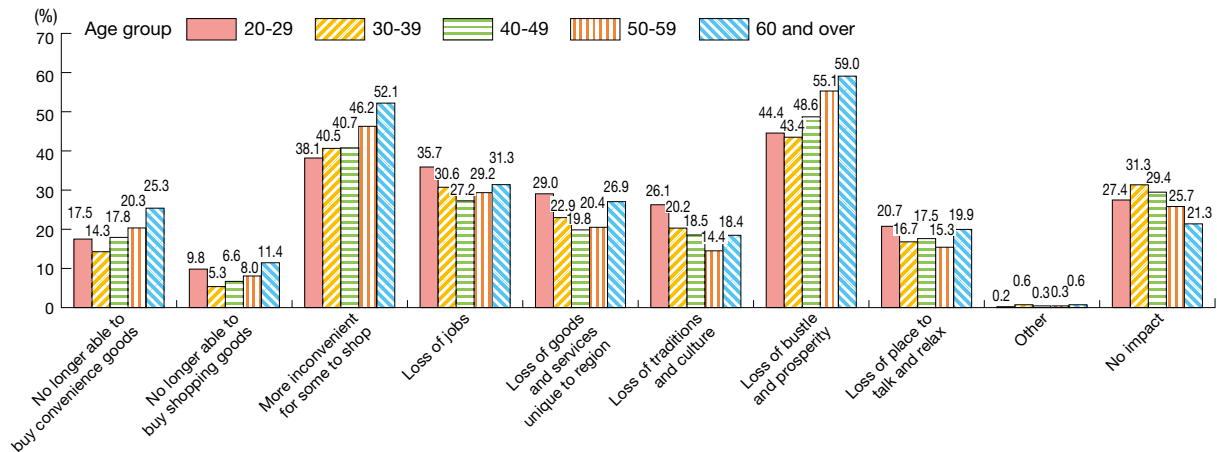
Notes: 1. The results were calculated by scoring in order of ranking: 3 points for first, 2 points for second, and 1 point for third. 2. Shopping districts answered about their own districts, and consumers about shopping districts in general.

Asked about the impact of the disappearance of shopping districts, large proportions of consumers say “loss of bustle and prosperity,” followed by “more

inconvenient for some to shop.” These concerns increase with age (Fig. 2-1-55).

**Fig. 2-1-55 Impact of disappearance of shopping districts**

The commonest concern in all age groups is “loss of bustle and prosperity” followed by “more inconvenient for some to shop,” and these concerns are greater among older age groups.



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

Small and medium retailers thus play an indispensable role in sustaining local consumption and communities, supplying daily necessities to residents and fueling thriving local communities. Recognition of the importance of their

role has been renewed following the earthquake, when shopping districts in regions devastated by the tsunami were quick to re-open and help local residents continue with their lives.

**Case 2-1-15**

**A shopping district that is becoming lively once again as shops damaged by the tsunami resume business**

The Miyako City Suehiro-cho Shopping District in Miyako City, Iwate Prefecture was flooded by 30-200cm of water from the tsunami, so the road and store interiors were covered in mud. While the shopping district was shut down for a while, nearly half of the shops were reopened within a month after the disaster, and within two months 80% had resumed business.

At one clothing shop, the shopkeepers carried clothes out from their pitch-dark store while the power was still out, washed them with water, and lined them up for sale at a discount in front of the shop. Disaster victims who had fled without enough clothing lined up to buy the discounted clothes. Impressed by this response, nearby shops started wagon sales of various goods in front of their stores while still cleaning out the mud, even while the electricity and phones were still not working, giving the feeling of an outdoor market. The shopping district became bustling with activity.

The shopping district promotion association distributed meals to disaster victims several times, implemented a survey at the end of March, and compiled the damage status and requests of its members. The association hosted meetings for explanations of government assistance policies, arranged submission of a joint application for certification of disaster damages, and printed leaflets to announce the reopening of businesses. The shopping district also held a recovery sale event three months after the disaster, on June 11, and is working to invigorate and bring renewed vitality to the neighborhood.

## Case 2-1-16

### A shopping district deepening ties with the community to become essential to local residents

The Usuki Shopping District is located adjacent to JR Usuki station in Kagoshima City, Kagoshima Prefecture.

This shopping district accurately grasps the characteristics and needs of its customers through questionnaires and interviews, and makes efforts tied to the local community. For example, the shopping district has installed community facilities for childcare consultation and as a place where seniors can gather. They provide services to look after elderly people living alone, and supply shopping district information via cell phones. The shopping district is working to register residents and increase visitors through all types of events and activities.

The Usuki Shopping District planned and implemented a "Shopping District Lights Out Experiment" to publicize their community contributions. This event gave local residents a renewed awareness of how the shopping district lighting brings vitality to the neighborhood and creates an environment where locals can enjoy shopping, demonstrating how the shopping district contributes to a safe and secure neighborhood. The following two comments received from local residents show the success of this event. "I came to realize it was the shopping district that keeps the neighborhood well lit. It felt lonely when they turned off the lights." "I had taken the presence of the shopping district for granted. This made me realize, once again, just how important the shopping district is."

The Usuki Shopping District is not just a collection of shops with good trade. The shopping district aims at deepening ties with the community and being loved by local residents. In addition to supplying essential items for daily life, this shopping district wants to play a role in fostering local traditions, and is developing as a location filled with the history and memories of local residents.



The Usuki Shopping District at night (the street lighting was also turned off during the "Lights Out Experiment")

## Case 2-1-17

### A cooperative market that supports consumption by the elderly

The Semboku Momoyamadai Municipal Cooperative Market is located inside Semboku New Town, a 10-minute walk from Semboku Rapid Railway Toga-Mikita station in Sakai City, Osaka Prefecture. This was formerly a group of small-scale food and retail shops gathered together as a market, but the businesses changed to a cooperative supermarket format in 1999. Each shop in the market brings in its own goods. The cooperative collects the revenues at common cash registers, and distributes the respective sales back to each shop every 10 days.

The population in the market's trade area decreased from 17,828 to 17,467 from 2005 to 2010, declining by about 2% over those five years. But during that same period, the population of seniors of 65 years old and over grew by about 26% from 3,304 to 4,178, in part because of the aging of residents living in Semboku New Town. Surveys of shoppers and individuals using shopping assistance buses indicated that there were many seniors facing difficulties because they could not shop near their residences. So the cooperative began a home delivery service for seniors and others who find it difficult to come to the store.

The home delivery service is provided by two shop employees who take phone and fax orders on the side of their other duties, and make the deliveries. This began on a small scale at low cost with deliveries by bicycle. As the service has grown, the deliveries are now made using motor scooters.

The market also recently introduced a POS system that can be used for customer management. The system indicates, for example, that a particular customer prefers tuna cut one way rather than another. The market is using prior purchasing history for product selection reflecting customer preferences to improve service quality and gain customer trust, and the number of customers is gradually increasing.



Inside the cooperative supermarket



Delivery scooter

### Column 2-1-7 Locations where small and medium retailers account for high/low proportions of retail sales

What are the characteristics of locations where small and medium retailers account for a high proportion of retail sales? Column Figure 2-1-7 (1) presents the urban employment areas<sup>39)</sup> with populations of 100,000 or less where retail shops with 50 or fewer workers account for high/low percentages of retail sales, using data from METI's 2007 Census of Commerce.

**Column Fig. 2-1-7 (1) Urban employment area where retailers with 50 or fewer workers account for high/low proportions of retail sales**

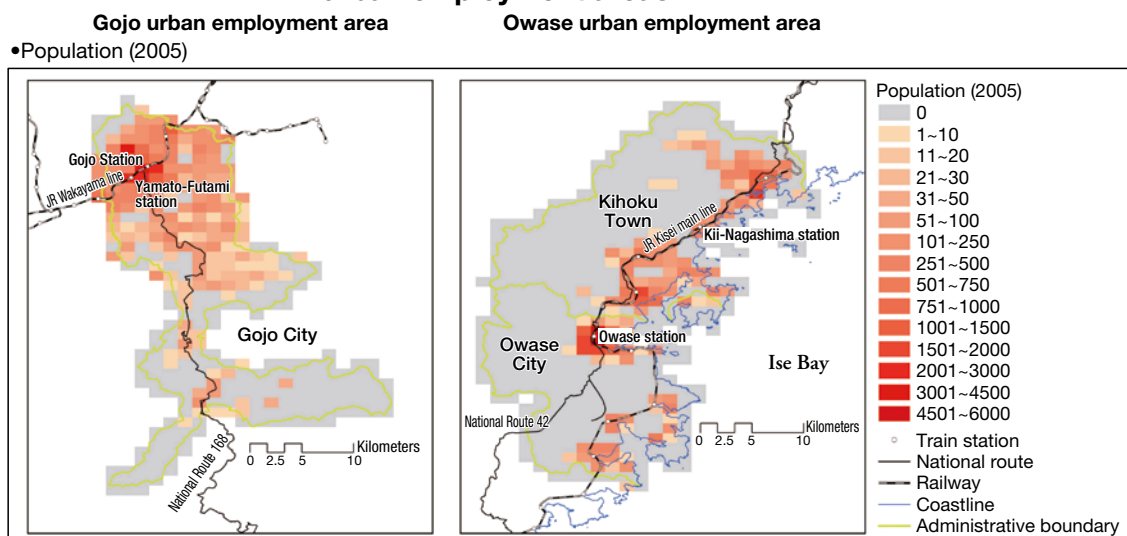
Urban employment area	Population (10,000 persons)	Annual retail sales (¥100 million)	Percentage of retail sales by shops with 50 or fewer workers	Percentage of retail sales by department stores and general merchandise stores
Owase	4.3	396	96%	4%
Nichinan	6.1	538	94%	3%
Wajima	3.4	247	93%	0%
Imari	8.1	726	92%	2%
Hitoyoshi	10.0	894	91%	2%
Moriyama	7.3	749	77%	14%
Ako	5.2	515	76%	14%
Ono	5.0	405	75%	14%
Gamagori	8.2	853	75%	5%
Gojo	3.7	235	73%	17%

Sources: Recompiled from METI, 2007 Census of Commerce; MIC, Populations, Vital Statistics, and Numbers of Households Based on Basic Resident Registers (as of March 31, 2007).

We now proceed to examine the urban employment area population and retail sales distributions in the Owase urban employment area<sup>40)</sup> where the proportion of retail sales by shops with 50 or fewer workers was the highest and in the Gojo urban employment area<sup>41)</sup> where the proportion was the lowest. Column Figure 2-1-7 (2) shows that in the Owase urban employment area the population is distributed in the flatlands near the coast because the interior is mountain forest, running along National Route 42 and the JR Kisei main line. This line has a large number of stations—nine stations—and retail sales are distributed along the line, with Owase station and Kii-Nagashima station at either end.

In contrast, National Route 24 and the JR Wakayama line run across the northwest part of the Gojo urban employment area. Compared with the railway in Owase, this line runs for a shorter distance with just three stations in the Gojo area: Kitauchi station, Gojo station, and Yamato-Futami station. The southern part of the Gojo urban employment area is mostly for automobile traffic along National Route 168. The population and retail sales are concentrated in the northwest, nearby the railway stations.

**Column Fig. 2-1-7 (2) Population and retail sales in the Owase and Gojo urban employment areas**

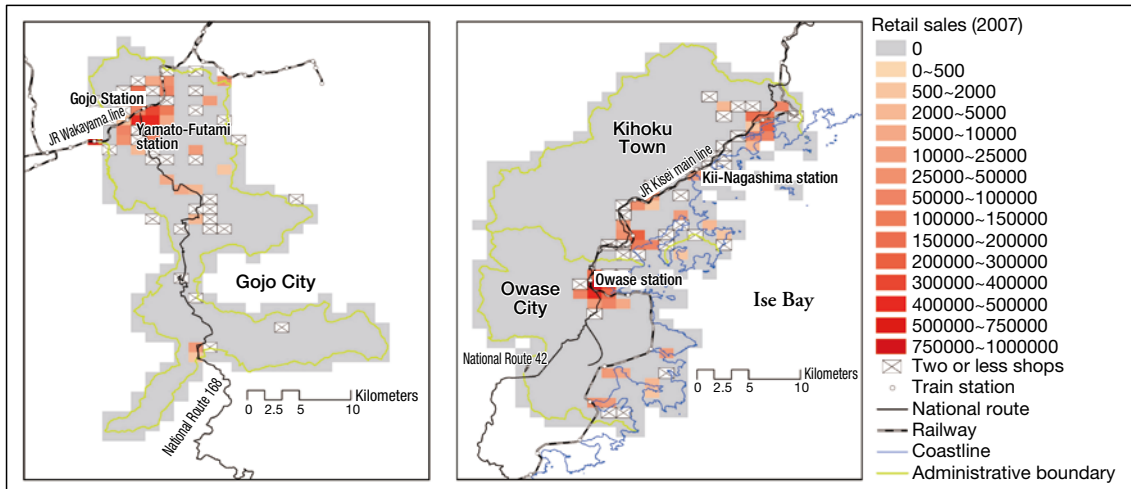


39) See Appended Note 1-2-1.

40) The Owase urban employment area covers Owase City and Kihoku Town.

41) The Gojo urban employment area covers Gojo City.

•Retail sales (2007)



Sources: Recompiled from METI, 2007 Census of Commerce; MIC, 2005 Population Census.

- Notes: 1. Using one-kilometer mesh data.  
 2. The meshes with the symbol “x” on the map denote concealed values.

These distributions suggest that the percentage of retail sales by shops with 50 or fewer workers is high in the Owase urban employment area because the population is dispersed, which makes it difficult to operate large stores. In contrast, in the Gojo urban employment area the percentage of retail sales by shops with 50 or fewer workers is low because the population is concentrated in certain areas, making it easy to operate large stores.

Using one-kilometer mesh data to analyze the relationship between population and retail sales in each district shows a correlation coefficient of 0.77 in the Owase urban employment area, compared with 0.50 in the Gojo urban employment area. This shows a stronger tendency in Owase whereby more densely populated areas gain a higher proportion of retail sales and less densely populated areas gain a lower proportion of retail sales. This apparently indicates that a higher proportion of the residents of the Owase area can shop nearby their residences.

According to the *Future Population Estimates of Japan by City, Ward, Town and Village* (December 2006) published by the National Institute of Population and Social Security Research, the populations of these urban employment areas will decline sharply from 2007 to 2030, with the population of the Owase urban employment area decreasing from 43,000 to 26,000, and the population of the Gojo urban employment area decreasing from 37,000 to 25,000. Moreover, the percentage of the elderly population 65 and over is projected to rise from 32% in 2005 to 47% in 2030 in the Owase urban employment area, and from 26% to 42% in the Gojo urban employment area. Given these projections for reduced local demand from population decline and more local shopping by elderly residents, the key to the future development of small retailers in these urban employment areas lies in precisely capturing the demand of the local residents.<sup>42)</sup> Such conditions are by no means limited to these two urban employment areas. It is important to think about the future of small and medium retail shops in every part of Japan considering population dynamics, infrastructure development, and other local conditions.

[2] Shopping district initiatives

Above, we described the key role played by small and medium retailers in sustaining local demand, and how they act as hubs of the local community supporting community life and contribute to regional economies and societies. We also observed that one of the effects of the earthquake has been to prompt a renewed recognition of their importance. In this subsection, we now consider the initiatives employed by small and medium retailers to meet local demand and contribute to regional economies and societies.

● Initiatives targeted at shoppers

We start with the initiatives taken by shopping

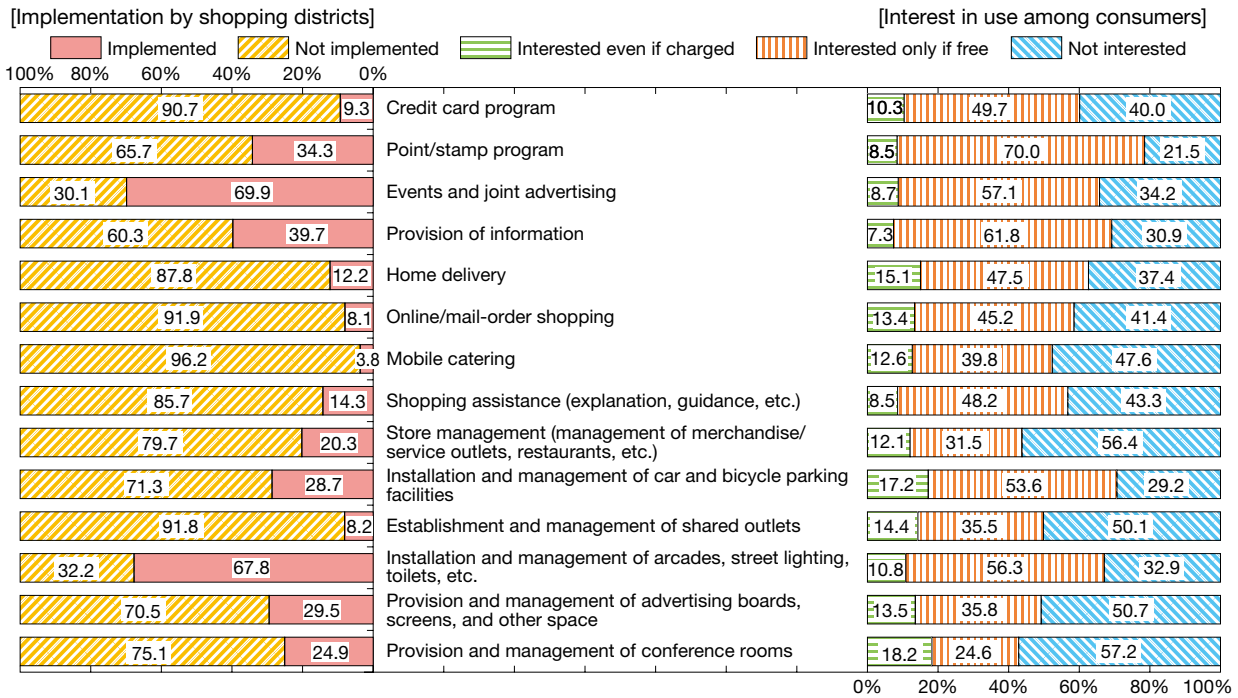
districts that are targeted at shoppers. The commonest categories of such shopper-targeted initiatives, taken by approximately 70% of shopping districts, are “events and joint advertising” and “installation and management of arcades, street lighting, toilets, etc.” Fewer than 20% of consumers seek any of the types of initiative shown if they would have to pay for them. If those who would be interested provided that they are free are also included, however, approximately 70% seek “point/stamp programs,” “installation and management of car and bicycle parking facilities,” “provision of information,” and “installation and management of arcades, street lighting, toilets, etc.” (Fig. 2-1-56).

42) See Appended Note 2-1-12.



**Fig. 2-1-56 Shopper-targeted initiatives undertaken by shopping districts**

Approximately 70% of shopping districts undertake “events and joint advertising” and “installation and management of arcades, street lighting, toilets, etc.” to attract shoppers. Fewer than 20% of consumers seek any of the types of initiatives shown if they would have to pay for them. If those who would be interested provided that they are free are included, however, approximately 70% seek “point and stamp programs,” “installation and management of car and bicycle parking facilities,” “provision of information,” and “installation and management of arcades, street lighting, toilets, etc.”



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

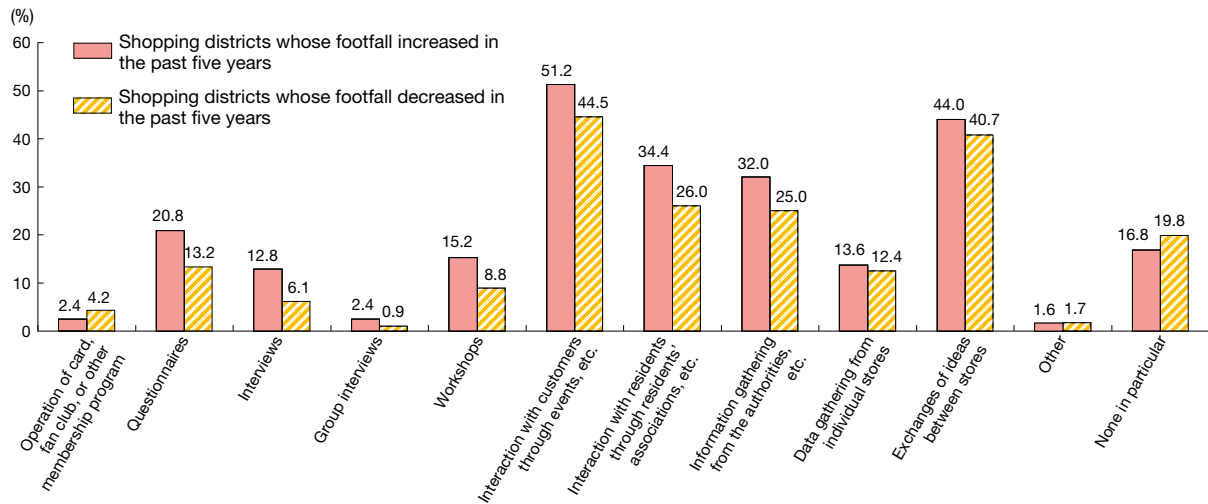
To what extent then do shopping districts keep track of consumer needs?

The commonest approach used by shopping districts to monitor customer needs is “interaction with customers through events, etc.,” followed by “exchanges of ideas between stores,” “interaction with residents through residents’ associations,” and “information gathering from the authorities, etc.” The proportion of shopping districts employing such methods is higher among those whose footfall has increased in the past five years than among those whose footfall has decreased, indicating that they tend to be more actively involved in collecting information (Fig. 2-1-57).

Considering next how shopping districts use information on needs, the commonest response among shopping districts whose footfall has fallen in the past five years is “none in particular.” High proportions of shopping districts whose footfall increased in the past five years respond, in descending order, “improvement of programs and services in shopping district,” “improvement of individual stores’ programs and services,” and “launch of new programs and services in shopping district.” The evidence thus indicates that large proportions of such shopping districts use the information that they have gathered to organize new activities and improve existing ones (Fig. 2-1-58).

**Fig. 2-1-57 Methods of monitoring customer needs**

Shopping districts whose footfall has increased in the past five years tend to actively gather information.

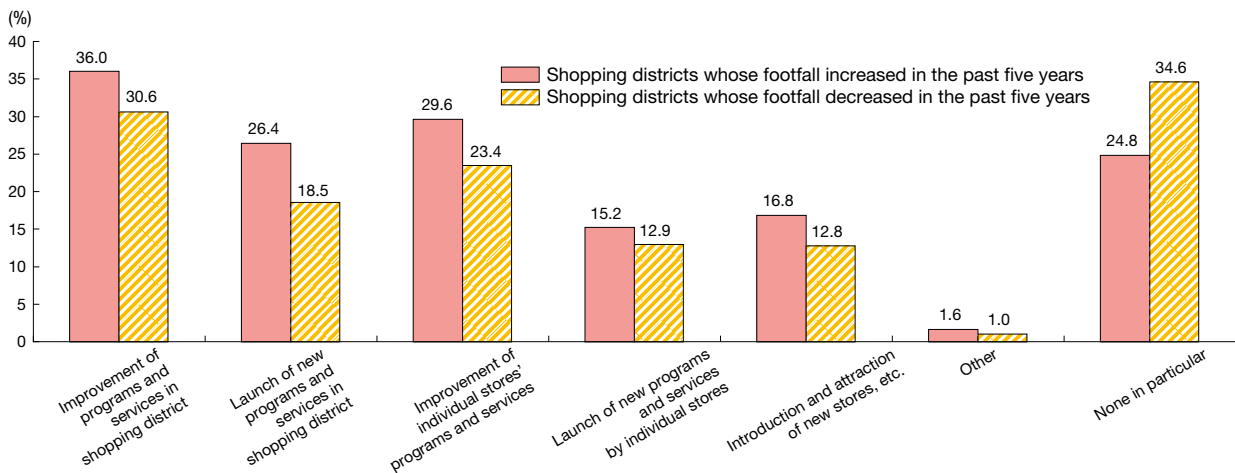


Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

- Notes:
1. "Shopping districts whose footfall increased in the past five years" combines respondents that said footfall increased "considerably" or "slightly." Similarly, "shopping districts whose footfall decreased in the past five years" combines those whose footfall decreased "considerably" or "slightly."
  2. Totals do not necessarily sum to 100 due to multiple responses.

**Fig. 2-1-58 Uses of information on needs**

High proportions of shopping districts whose footfall increased say, in descending order, "improvement of programs and services in shopping districts," "improvement of individual stores' programs and services," and "launch of new programs and services in shopping district."



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

- Notes:
1. "Shopping districts whose footfall increased in the past five years" combines respondents that said footfall increased "considerably" or "slightly." Similarly, "shopping districts whose footfall decreased in the past five years" combines those whose footfall decreased "considerably" or "slightly."
  2. Totals do not necessarily sum to 100 due to multiple responses.

Having looked at how shopping districts monitor customer needs and make use of this information, we consider next what initiatives shopping districts adopt on the basis of such information.

Fig. 2-1-59 shows the categories of initiatives being taken to create attractive clusters of stores. It can be seen from this that "action by individual store owners" is

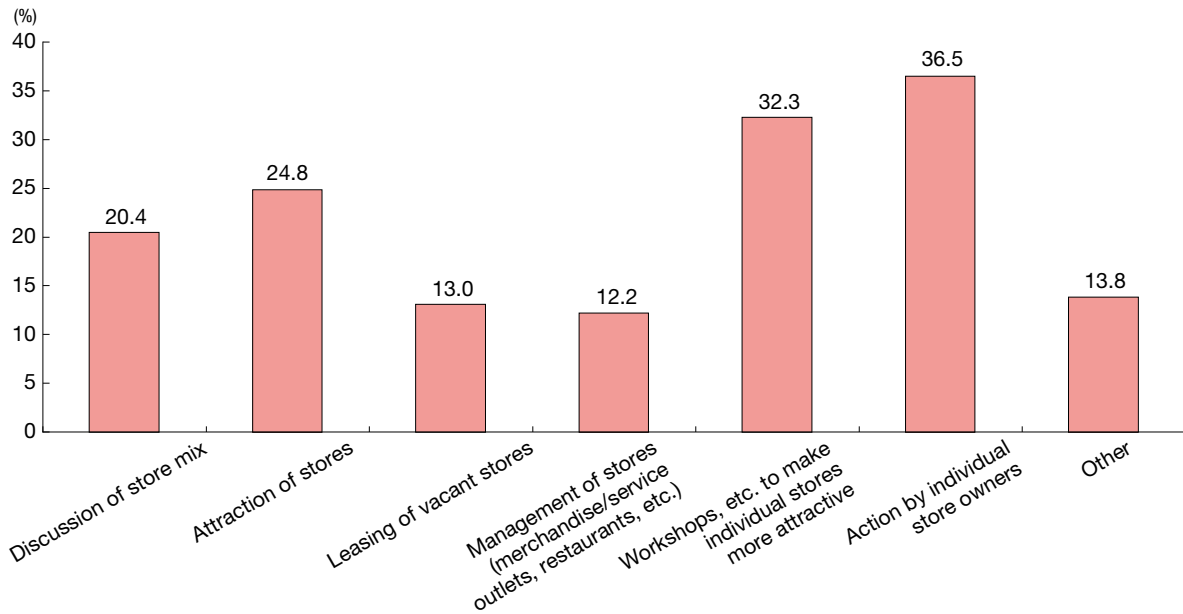
commonest, accounted for by 36.5% of shopping districts, followed by "workshops, etc. to make individual stores more attractive," being accounted for by 32.3%. The emphasis thus appears to be more on action by individual stores than action undertaken by shopping districts as a whole.

The commonest obstacles that shopping districts face in creating attractive clusters of stores are “collection of information” and “finding partners,” which are each faced

by around 50%. Lack of information thus appears to be a serious problem (Fig. 2-1-60).

**Fig. 2-1-59 Initiatives to create attractive clusters of stores**

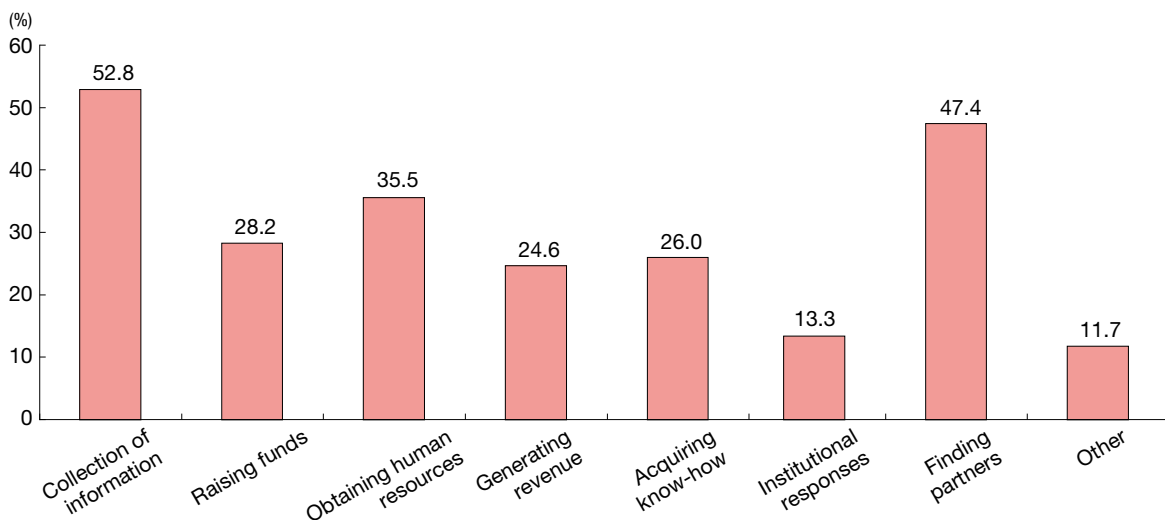
“Action by individual store owners” is commonest (36.5%), followed by “workshops to make individual stores more attractive” (32.3%).



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

**Fig. 2-1-60 Obstacles to creation of attractive clusters of stores**

“Collection of information” and “finding partners” are each problems for around 50% of shopping districts, evidencing the serious problem posed by lack of information.



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

As observed above, shopping districts pursue a variety of initiatives targeted at shoppers, and consumers' interest in using these services is correspondingly high. Shopping districts whose footfalls are growing also tend to monitor customer needs and utilize their findings more actively.

It is possible, therefore, that shopping districts will be able to increase footfall if they actively gather information to accurately identify consumer needs and effectively utilize this information to raise their appeal.

**Case 2-1-18**

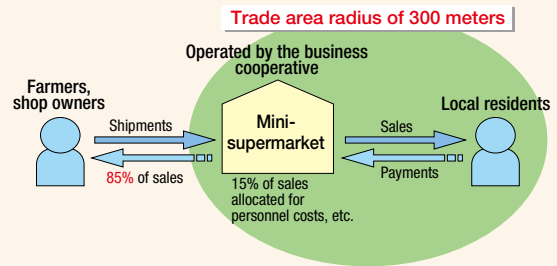
**A shopping district promoting a "walking-range" market with a trade area radius of 300 meters**

Chuo Aozora Kikaku of Arao City, Kumamoto Prefecture is a business cooperative created at the initiative of a young shop owner in the Arao Chuo Shopping District.

The shopping district had declined because of the aging and outward migration of population from the neighborhood, and a growing number of senior citizens were facing difficulties because they could not purchase daily necessities nearby. So in May 2005, Chuo Aozora Kikaku opened the agricultural products direct sales shop "Aoken" using an empty store at the shopping district. Aoken became popular through word-of-mouth, and is being patronized by a growing number of customers, especially senior citizens.

Aoken uses a consignment sales system for goods, which are delivered by farmers and shop owners, and retains 15% of sales for labor and other expenses. A questionnaire of nearby residents indicated that Aoken had high name recognition among people living within a 300 meter radius of the store, so they decided to call it "a 300 meter walking-range market."

The cooperative focuses on keeping expenses to an absolute minimum, avoiding risk, and maintaining an appropriate business scale. This business is not intended to be competitive nationwide. Rather, it is a business framework for the circulation of money within the local community.



**300 meter walking-range market**  
Source: METI materials.

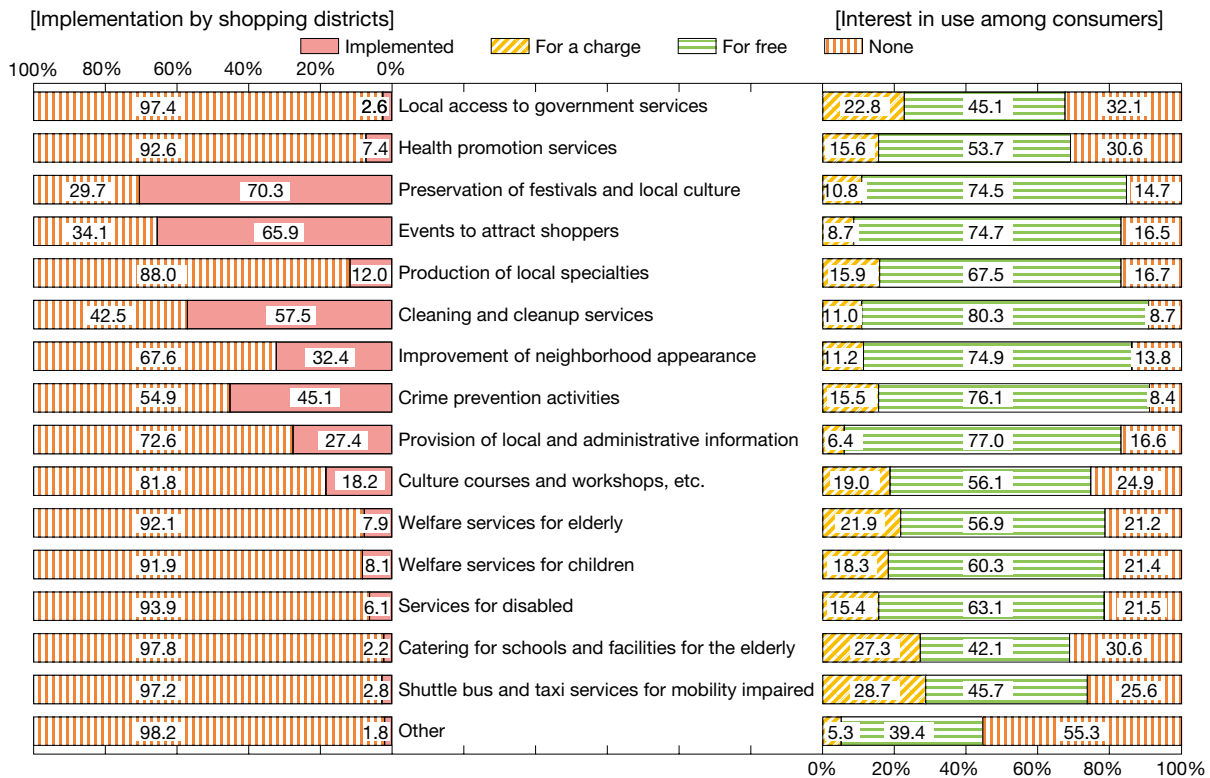
**● Initiatives targeted at local residents**

The two commonest resident-targeted activities undertaken by shopping districts are “preservation of festivals and local culture” and “events to attract shoppers,” each undertaken by around 70% of the total. One in four customers, on the other hand, seeks “shuttle bus and taxi services for the mobility impaired,” “catering for schools and facilities for the elderly,” and “local access to government services” even if they have to pay for these

services. If free provision is also included, at least 90% of consumers want to see “cleaning and cleanup services” and “crime prevention activities.” These findings suggest that consumers are interested not only in conventional programs designed to attract shoppers to shopping districts, but also a wide range of other initiatives, including welfare services and activities to maintain the appearance and security of neighborhoods (Fig. 2-1-61).

**Fig. 2-1-61 Resident-targeted activities undertaken by shopping districts**

Around 70% of shopping districts organize activities to “preserve festivals and local culture” and “events to attract shoppers.” One in four customers, on the other hand, seeks “shuttle bus and taxi services for the mobility impaired,” “catering for schools and facilities for the elderly,” and “local access to government services” even if they have to pay for these services. If free provision is included, at least 90% of consumers seek “cleaning and cleanup services” and “crime prevention activities.”



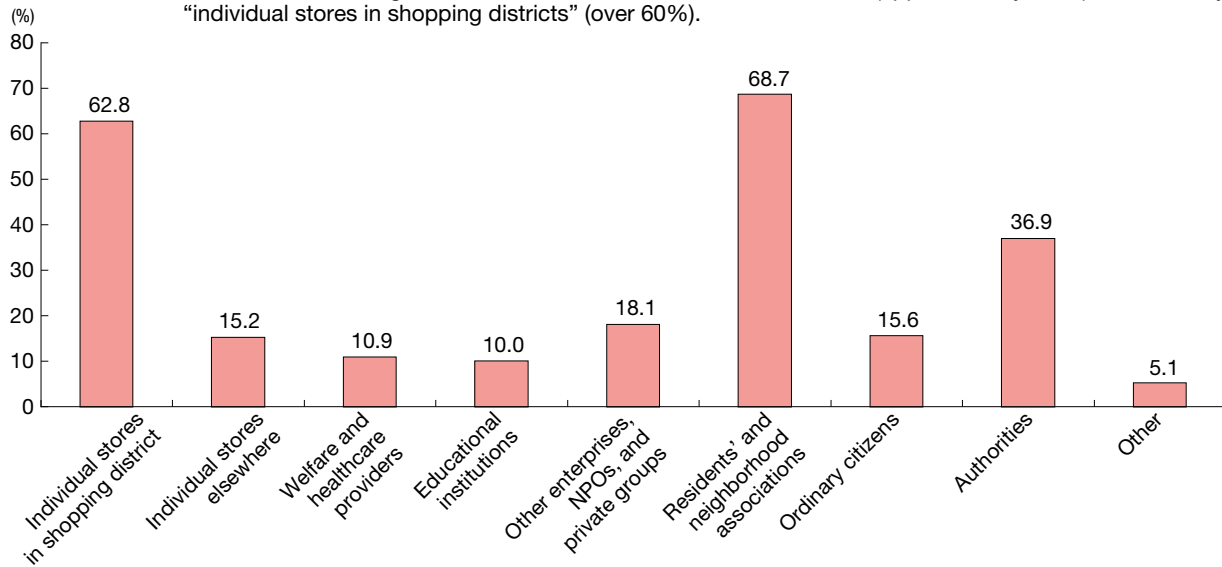
Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

Shopping districts’ commonest partners in these initiatives are “residents’ and neighborhood associations,” which are used by around 70%, followed by “individual stores in shopping districts,” which are used by over 60%. The commonest obstacles encountered are “finding

partners” and “obtaining human resources,” each cited by around 60%. This gives some indication of the seriousness of the lack of human resources experienced by shopping districts (Fig. 2-1-62, Fig. 2-1-63).

**Fig. 2-1-62 Partners involved in resident-targeted initiatives**

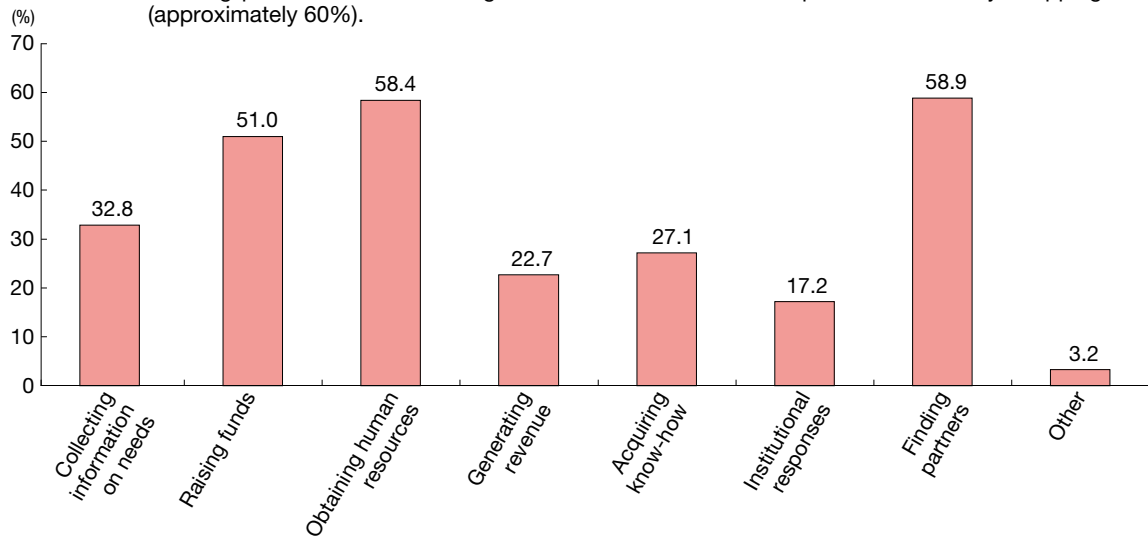
“Residents’ and neighborhood associations” are the commonest (approximately 70%), followed by “individual stores in shopping districts” (over 60%).



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

**Fig. 2-1-63 Obstacles encountered in resident-targeted initiatives**

“Finding partners” and “obtaining human resources” are each problems for many shopping districts (approximately 60%).



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

Given these problems, how then do shopping districts set about finding the human resources to undertake resident-targeted initiatives? Fig. 2-1-64 shows consumers’ past involvement and interest in participating in such initiatives. Overall, higher proportions are interested in participating than have actually done so in the past, which suggests a high level of latent interest in participating among consumers. Broken down by category of initiative, high proportions are interested in being involved in, in descending order, “preservation of festivals and local

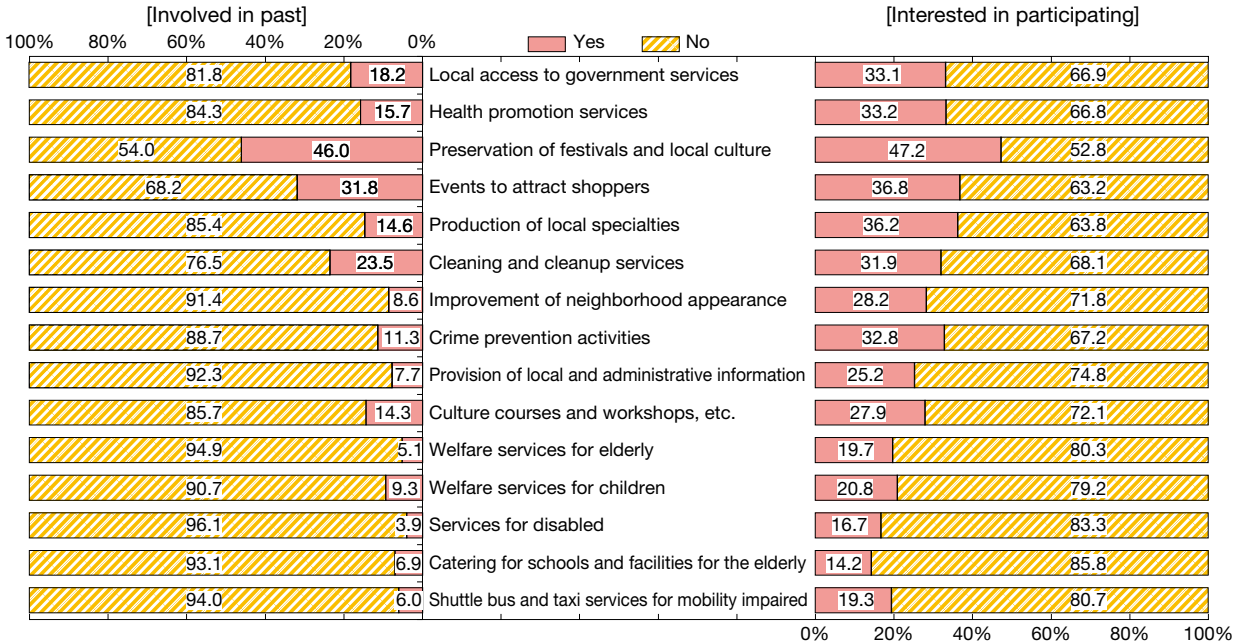
culture,” “events to attract shoppers,” and “production of local specialties.”

This suggests that while, as Fig. 2-1-62 showed, only 15.6% of shopping districts involved ordinary citizens in their initiatives, shopping districts may be able to enhance their resident-targeted initiatives and so raise consumer interest in themselves by more accurately monitoring residents’ desire to become involved and providing services accordingly.<sup>43)</sup>

43) See Case 2-1-19.

**Fig. 2-1-64 Past involvement and interest in participation in shopping districts' resident-targeted initiatives**

High proportions of consumers are interested in being involved in, in descending order, "preservation of festivals and local culture," "events to attract shoppers," and "production of local specialties."



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

This examination of shopping districts' resident-targeted initiatives suggests that providing assistance to help shopping districts to widen their partnerships to include close cooperation with ordinary citizens by gaining a better understanding of local residents' needs and latent

interest in becoming involved, thereby enabling them to play a key role in making residents' lives more convenient, should foster locally integrated community development and lead in turn to shopping districts' revitalization.

**Case 2-1-19**

**A shopping district aiming to become a multi-generational community center where everyone gathers**

The Kawano-sakae-machi Shopping District in Shikokuchuo City, Ehime Prefecture, is located in an urban district a two-minute walk (about 100 meters) from JR Kawano station. Shikokuchuo City is a center of the paper manufacturing industry with major firms including Daio Paper Corporation and Unicharm Corporation. While the city has a lot of workers employed by the paper industry who are raising children, these include many on transfer from other parts of Japan who have little attachment to the community.

To address this issue, the shopping district launched "Shikokuchuo.com" in an empty shop in 2004 as an information transmission base. The first floor is used to spread local information, as well as information about individuals and groups, and to present ongoing classes for seniors. The second floor was made into the "Niko-niko (Smile) Room" play space and parenting consultation center.

The shopping district also consigned NPOs and other local bodies to produce a "Child Raising Support Map," which shows the locations of childcare facilities, hospitals, parks and other facilities inside the city for families raising children, and a "Senior Map" which includes information on hospitals with services for seniors. The shopping district is implementing projects to reach specific targets.

Shikokuchuo.com has become a core of the local community, serving everyone from families with children to senior citizens. The Smile Room has been used by visitors from neighboring Tokushima Prefecture and Kagawa Prefecture. It is drawing a new customer segment to the shopping district.

The Kawano-sakae-machi Shopping District has been working not to directly expand sales, but rather to boost business by making the shopping district part of the local residents' daily lives. It is also helping to form networks among local organizations.



Exchange among multiple generations at Shikokuchuo.com

## Column 2-1-8 Local Shopping Mall Revitalization Act

The SME Agency is providing support to shopping district revitalization efforts implemented by shopping district associations (shopping district promotion associations, business cooperatives, etc.) to meet the needs of local residents, with approval from the respective Bureau of Economy Trade and Industry in each region.

- Example shopping district revitalization efforts eligible for support
  - \* Antenna shops and "challenge shops" (limited-term, low-priced rentals to potential entrepreneurs) using vacant stores
  - \* Development of events and brands using local resources
  - \* Arcades and community facilities (child raising support and senior citizen social facilities, etc.)
- Contents of main support measures
  - \* Subsidies to Increase the Vitality of Small and Medium Businesses (subsidy ratio of up to two-thirds)
  - \* Zero-interest financing for improvements to shopping center arcades, plazas, streets, joint stores, etc. (improved financing, with new financing from municipal bodies in addition to the existing financing from prefectures)
  - \* Zero-interest loans for small shops to purchase facilities and equipment
  - \* Tax measures to promote ownership transfer of the grounds of empty stores and other idle land (¥15 million special deduction on the income tax for land transfer)

### [3] Challenges and responses

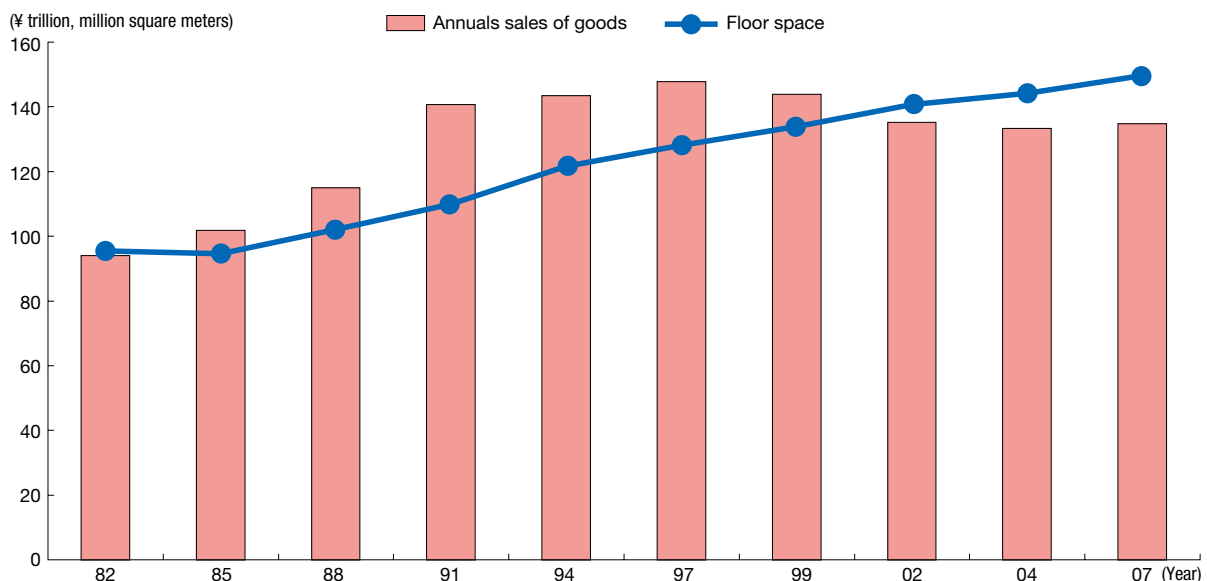
So far in this section, we have examined the position of small and local retailers and the initiatives that they are pursuing targeted at shoppers and at local residents. Below, we analyze the changes in the environment facing Japan's small and medium retail trade, and examine how the small and medium retailers that form the bedrock of community life are responding to these changes.

#### ● Changes in environment faced by small and medium retailers

Fig. 2-1-65 shows trends in annual sales of goods and floor space in the retail trade. This demonstrates that while floor space has consistently risen, annual sales of goods have been in decline since 1999.

**Fig. 2-1-65 Annual sales of goods and floor space in the retail trade**

While floor space is growing, annual sales of goods have been in decline since 1999.



Source: METI, *Census of Commerce*.



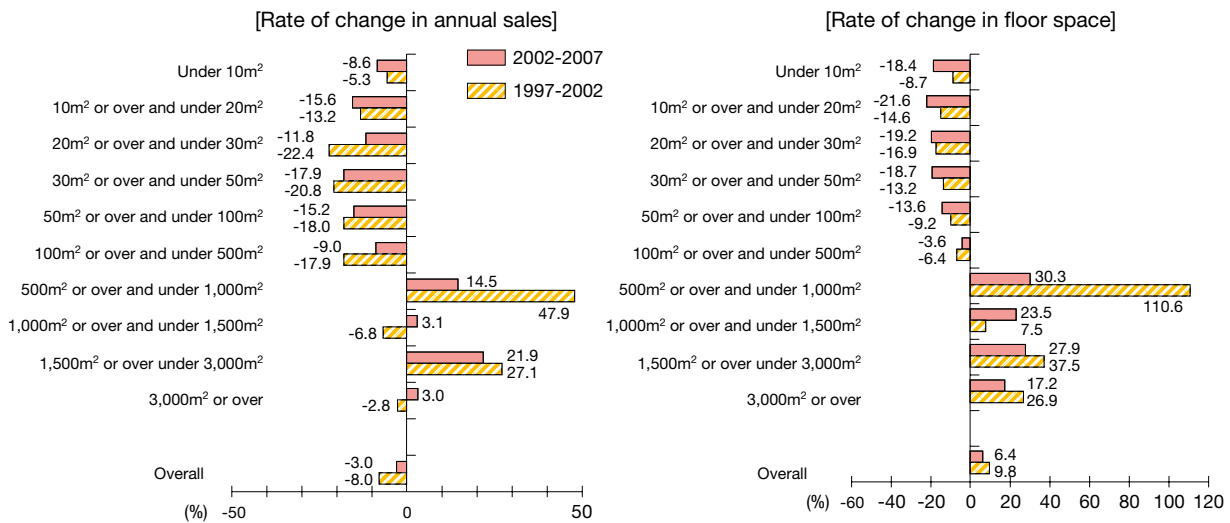
Do the downward trend in annual sales and upward trend in floor space in the retail trade differ according to store size? To answer this question, let us consider Fig. 2-1-66, which shows a breakdown by floor space of changes in annual sales and floor space in the retail trade between 1997 and 2002 and between 2002 and 2007. Evident from this is that annual retail sales increased at establishments

with floor space of at least 500 square meters, and fell dramatically at business establishments with floor space of less than 500 square meters.

Retail floor space also increased at establishments with floor space of at least 500 square meters, and decreased dramatically at establishments with floor space of less than 500 square meters.<sup>44)</sup>

**Fig. 2-1-66 Annual sales and floor space of retailers by floor space**

Both sales and floor space have fallen considerably at establishments with floor space of less than 500 square meters.



Source: METI, *Census of Commerce*.

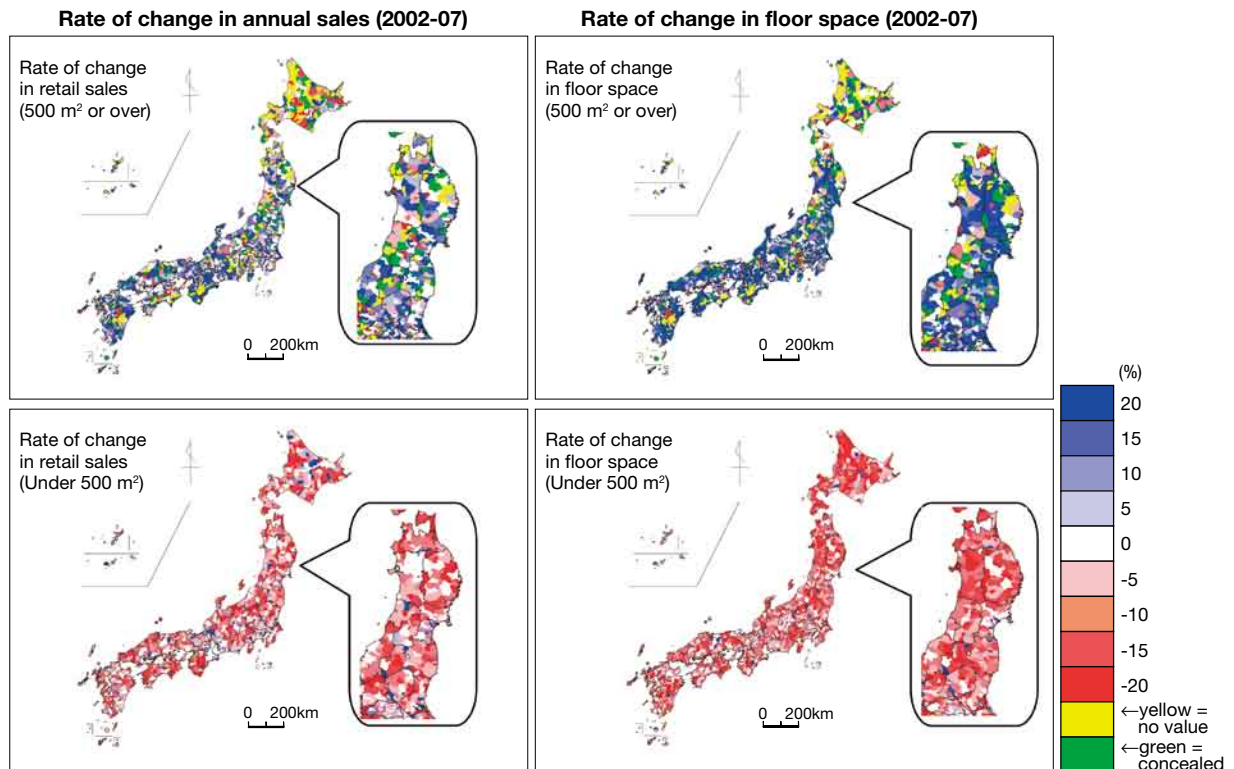
A breakdown by municipality further reveals that the upward trend in annual sales and floor space at retailers with floor space of at least 500 square meters and the downward trend at those with less than 500 square meters shown in Fig. 2-1-66 are evident in municipalities of all sizes. Facing contracting demand due to population

decline, establishments with floor space of less than 500 square meters are thus experiencing considerable declines in both sales and floor space. This phenomenon is not limited to any particular region, but is occurring throughout the country, including in regions affected by the earthquake (Fig. 2-1-67).

44) Sales per unit of floor area between 2002 and 2007 declined 11.4% at establishments of at least 500 square meters and declined by just 3.2% at establishments of under 500 square meters. In order to illustrate the severity of the situation faced by small and medium retailers amid the contraction of domestic demand, however, the analysis focuses not on sales per unit of floor area, but rather on annual sales and floor area, which have been in decline in recent years among establishments of less than 500 square meters.

**Fig. 2-1-67 Annual sales and floor space of retailers by floor space and municipality**

Both sales and floor space are falling considerably at establishments with floor space of less than 500 square meters.



Source: Recompiled from METI, *Census of Commerce*.

While retail sales are thus declining and floor space is increasing overall, sales and floor space are both trending upward at establishments with floor space of at least 500 square meters and trending downward at business establishments with floor space of less than 500 square meters, indicating that small and medium retailers face particularly severe conditions.<sup>45)</sup>

● **Attitudes among consumers, shopping districts, and businesses in shopping districts**

Our concern so far has been with the increasingly severe environment faced by small and medium retailers. Now we move on to examine perceptions of consumers' needs among shopping district businesses and shopping districts amid this changing environment.

The first question that we consider is: Where and how do consumers do their regular shopping? As Fig. 2-1-68

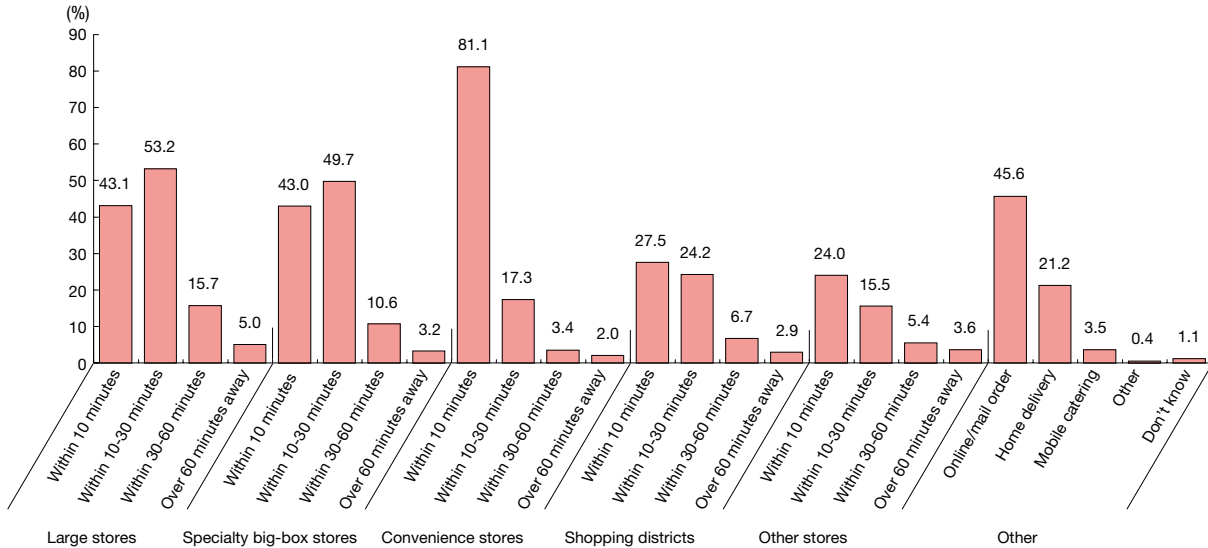
shows, the stores most commonly used by consumers are convenience stores located not more than 10 minutes away, which are used by approximately 80% of consumers. While large stores and specialty big-box stores within 30 minutes and online and mail-order shopping are used by approximately 50%, the figure for shopping districts is less than 30%, even when they are located less than 10 minutes away.

By category of items purchased, foods and apparel are commonly shopped for at large stores, home appliances and furniture at specialty big-box stores, and services and eating/drinking at other stores. Proportionately high use is made of shopping districts for cleaning/repair services and barber/hairdressing and beauty treatment services (around 25%), followed by eating/drinking (16.5%) (Fig. 2-1-69).

45) The conspicuous increase in floor space at establishments of 500 square meters or more between 1997 and 2002 is partially attributable to the repeal of the Act on the Adjustment of Business Activities of Retail Business at Large-scale Retail Stores (under which stores with floor space of at least 500 square meters were classified as type 2 large-scale retail stores).

**Fig. 2-1-68 Places and methods of doing ordinary shopping**

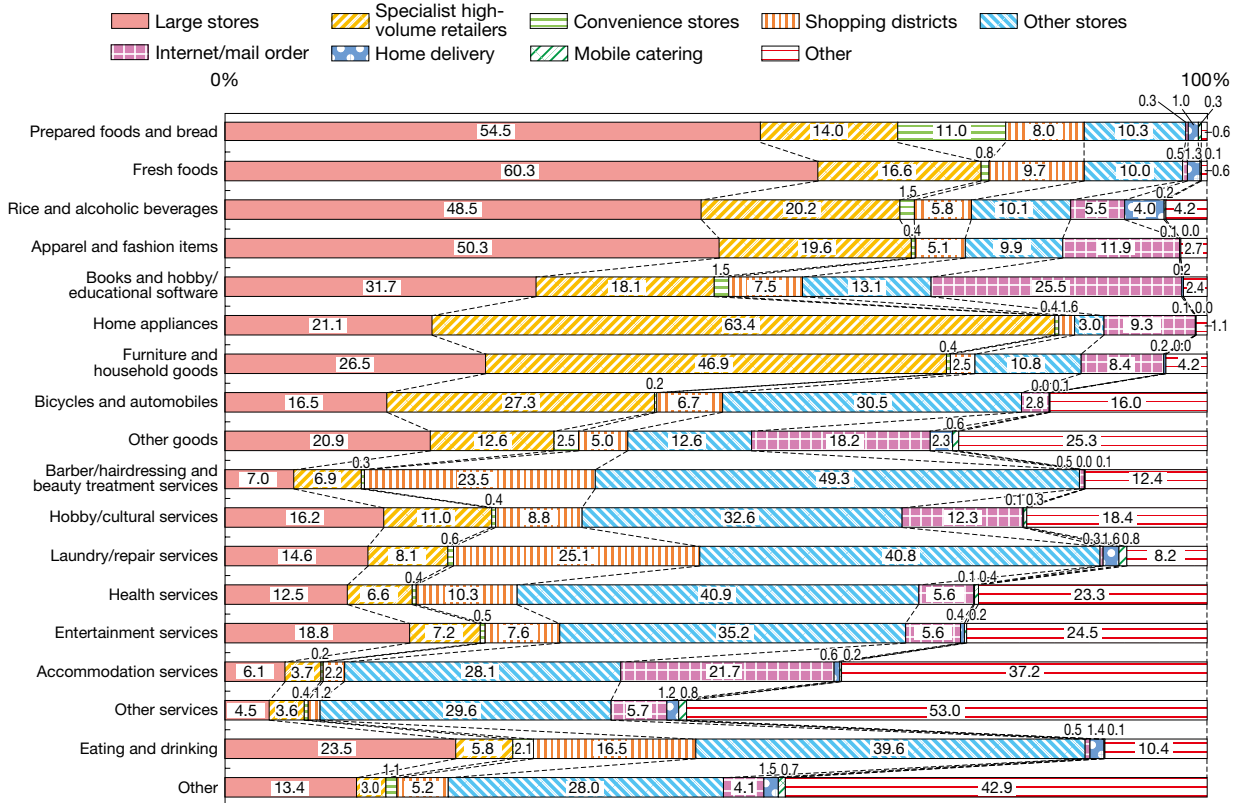
“Convenience stores within 10 minutes” are used extremely commonly (81.1%). Next most commonly used are “large stores within 10-30 minutes” and “specialty big-box stores within 10-30 minutes” (approximately 50%) and “online/mail order” (45.6%).



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

**Fig. 2-1-69 Main locations and methods of shopping by category of items**

Foods and apparel are commonly shopped for at large stores, home appliances and furniture at specialty big-box stores, and services and eating/drinking at other stores.



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

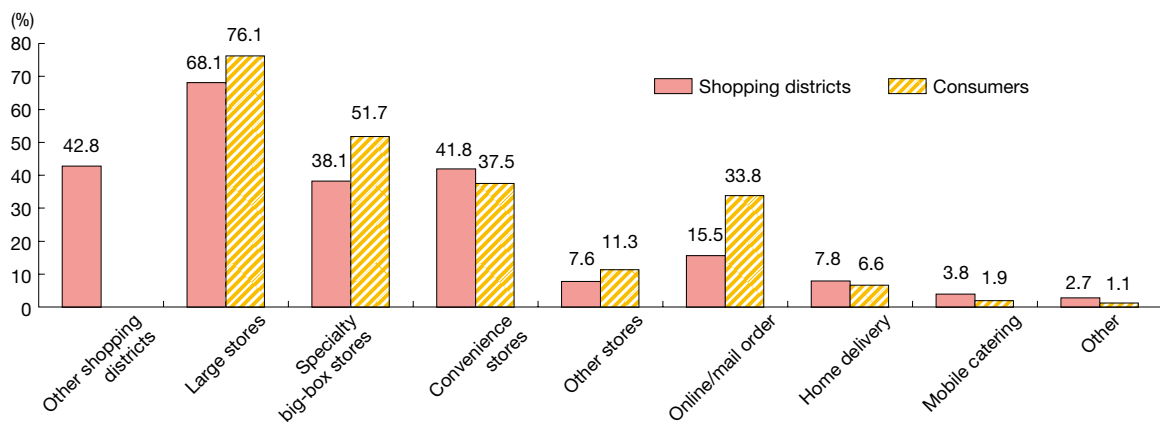
Next, we consider consumer attitudes concerning the types of places that they consider to compete with shopping districts as locations for doing their ordinary shopping. Fig. 2-1-70 shows the competitive environment faced by shopping districts. As can be seen, large proportions of both shopping districts and consumers regard “large stores,” “other shopping districts,” “convenience stores,” and “specialty big-box stores” as competitors. Also apparent is that larger proportions of consumers than shopping districts regard “large stores,” “specialty big-

box stores,” and “online/mail order” as competitors.

The above results show that consumers choose the best place to do their shopping from a wide range of options taking into account several factors, including accessibility and item that they intend to purchase, indicating that the competitive environment faced by shopping districts is considered fiercer by consumers than by shopping districts. The evidence thus suggests that shopping districts need to determine even more accurately what it is that consumers want from them and respond appropriately.

**Fig. 2-1-70 Competitive environment**

“Large stores,” “specialty big-box stores,” and “online/mail order” are regarded as competitors by higher proportions of consumers than shopping districts.



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

We move on to a comparison of attitudes among, respectively, consumers and shopping districts concerning changes in consumer needs and interests over the next five years, shown in Fig. 2-1-71. Apparent from this is that both consumers and shopping districts expect future growth in interest in safety and security, environmental and health-related demand and interest, and online/mail-order demand.<sup>46)</sup> Regarding interest in shopping locally, on the other hand, the high proportion of shopping districts expecting it to decline is indicative of the sense of crisis that exists among them. Among consumers, however, a high proportion expect interest to grow, which suggests that they still see shopping districts as playing an important role in the future.

An examination of the differences in attitudes between the two groups reveals that lower proportions of consumers than shopping districts expect demand and interest to increase in the following categories: “demand for home delivery services,” “interest in human contact (dialogue with staff, etc.)” and “demand for shopping assistance (explanation, guidance, etc.)” Overall, it appears that consumers do not expect demand for and interest in personal service to increase as much as is anticipated by shopping districts. In view of this, shopping districts will have to gain a better understanding of what products consumers want and what they expect of places to shop, and adopt appropriate measures in response.

46) The 2010 *White Paper on Small and Medium Enterprises in Japan* (pp. 31-33) described the variations and proportionate declines in unit prices of core products, showing that deflation has impinged also on SMEs. See Appended Notes 2-1-13 and 2-1-14.

**Fig. 2-1-71 Changes in consumer needs and interest (over the next five years)**

Regarding interest in shopping locally, the high proportion of shopping districts expecting a decline is evidence of a sense of crisis among them. Among consumers, however, a high proportion expect interest to grow, which suggests that they still see shopping districts as playing an important role in the future.



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

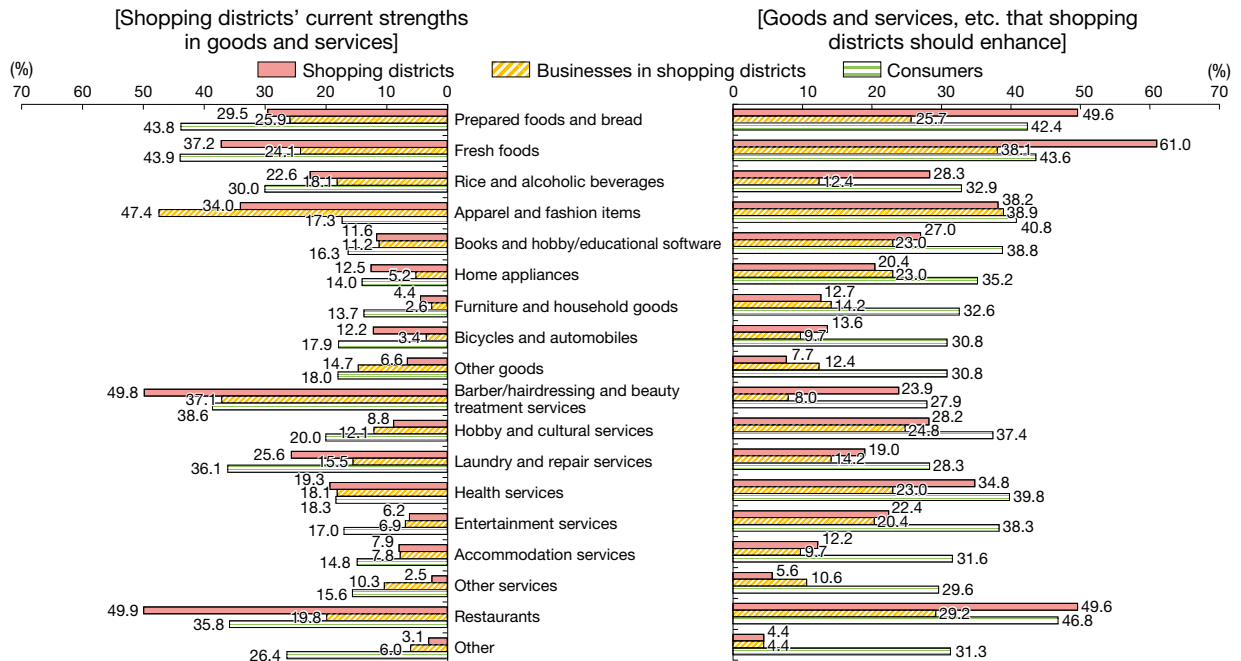
We look next at shopping districts’ strengths in goods and services, and what areas they need to enhance in the future.

According to Fig. 2-1-72, high proportions of shopping districts regard “barber/hairdressing and beauty treatment services” and “restaurants” as strengths, and high proportions of consumers see “fresh foods” and “prepared foods and bread” as strengths. Regarding areas that they feel need to be enhanced, high proportions of shopping

districts cited convenience goods such as “fresh foods” and “prepared foods and bread.” By comparison with shopping districts and businesses in shopping districts, consumers, on the other hand, are more likely to point to the need to enhance the environment for purchases of shopping goods such as “home appliances,” “furniture and household goods,” and “bicycles and cars.” In other words, there also appears to be demand for shopping goods purchasable at shopping districts.

**Fig. 2-1-72 Shopping districts' strengths in goods and services, and areas for enhancement**

Shopping districts see barber/hairdressing and beauty treatment services and restaurants as strengths, while consumers rate fresh foods and prepared foods and bread more highly. Both shopping districts and consumers feel fresh foods, prepared foods and bread, and restaurants need to be enhanced.



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

- Notes:
1. Shopping districts and businesses in shopping districts were asked about their own districts, and consumers about shopping districts in general.
  2. Totals do not necessarily sum to 100 due to multiple responses.

● **Challenges faced by shopping districts and responses**

In the preceding subsection, we saw that consumers select where and how to shop by comparing large stores, specialty big-box stores, online and mail-order outlets, and so forth more than shopping districts recognize. It was also observed that shopping districts need to enhance their provision of goods and services other than convenience goods. In this subsection, we examine the views of shopping districts, businesses in shopping districts, and consumers on what challenges shopping districts will face over the next decade or so, and how they need to respond.

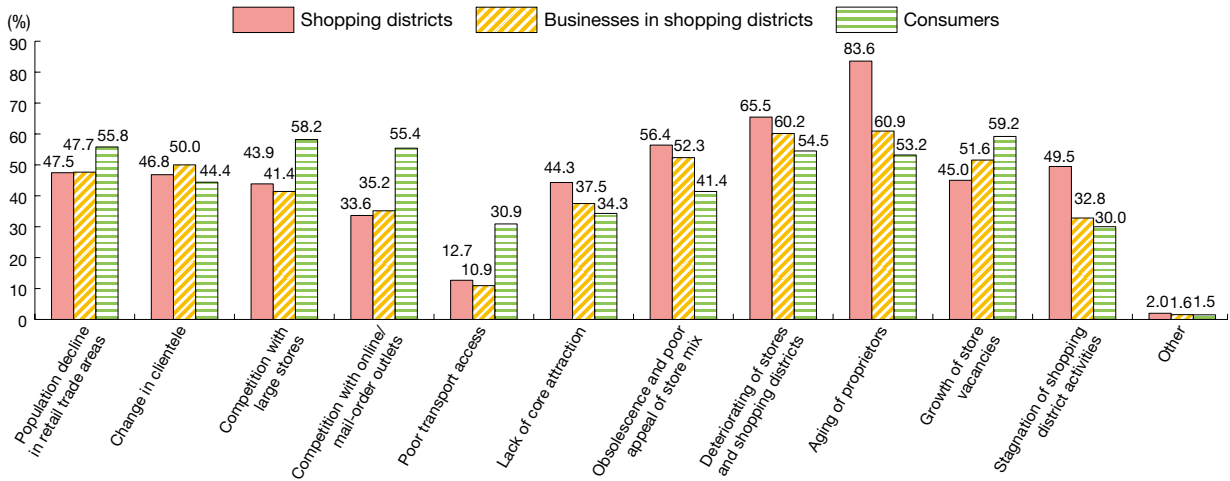
Fig. 2-1-73 shows the issues that shopping districts are expected to face over the next decade. From this, we can

see that whereas shopping districts are highly aware of internal challenges such as proprietors' advancing age<sup>47)</sup> and the deterioration of stores and shopping districts, consumers are relatively more conscious of external challenges, such as competition with large stores and online/mail-order outlets and population decline in retail trade areas. The proportion regarding growth in store vacancies as a problem is also the highest among consumers, which indicates that they are more keenly aware of this as an issue for shopping districts than are shopping districts and businesses in shopping districts. In areas affected by the earthquake, there are concerns that these challenges will be compounded by the further worsening of problems such as population decline in retail trade areas and growth in store vacancies.

47) See Appended Note 2-1-15.

**Fig. 2-1-73 Challenges facing shopping districts over the next decade**

While high proportions of shopping districts see the aging of proprietors and deterioration of stores as upcoming issues, consumers are more likely to cite growth in store vacancies and competition with large stores and online/mail-order outlets.



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

- Notes:
1. Shopping districts and merchants answered about their own districts, and consumers about shopping districts in general.
  2. Totals do not necessarily sum to 100 due to multiple responses.

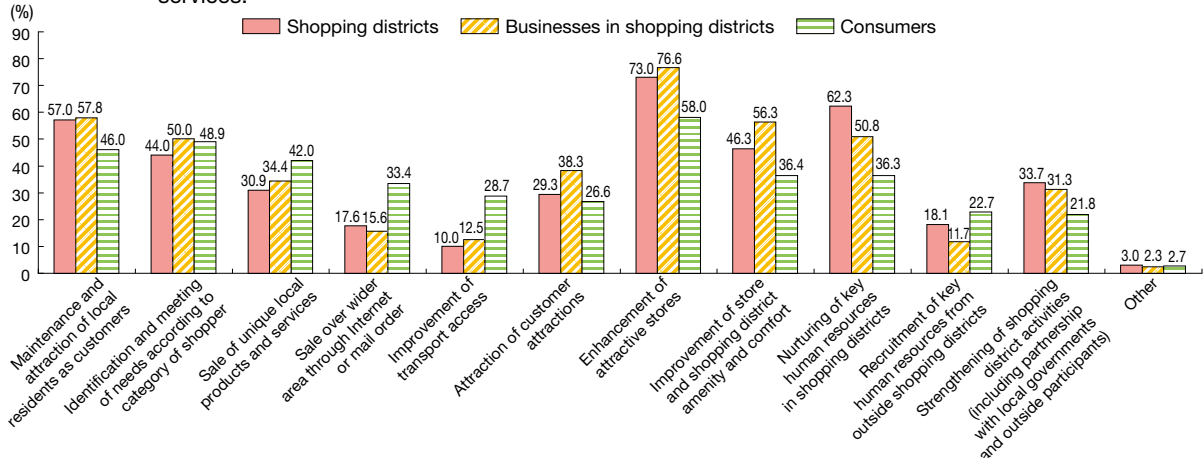
Asked about what strategies should be adopted to counter these issues, shopping districts, businesses in shopping districts, and consumers all put “enhancement of attractive stores” at the top of the list, evidencing a common recognition of the importance of raising shopper drawing power by enhancing individual stores. Among shopping districts, a high proportion see “nurturing of key human resources in shopping districts” as a necessary strategy, while comparatively high proportions of consumers say “identification and meeting of needs according to category of shopper,” “maintenance and

attraction of local residents as customers,” and “sale of unique local products and services” (Fig. 2-1-74).

The above findings show that in order for shopping districts to maintain and develop themselves in the difficult post-quake environment, they need to accurately identify consumer needs in order to determine more clearly who their target customers are and steadily attract demand from among local residents, while at the same time dealing with internal problems such as the aging of proprietors by finding and developing key human resources.

**Fig. 2-1-74 Strategies to cope with challenges facing shopping districts**

High proportions see enhancement of attractive stores as one way of coping with the issues faced, while high proportions of consumers opt for maintenance and attraction of customers who live locally, identification and meeting of needs according to category of shop, and sale of unique local products and services.



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

Notes: 1. Shopping districts and merchants were asked about their own districts, and consumers about shopping districts in general.  
2. Totals do not necessarily sum to 100 due to multiple responses.

This chapter examined the importance of the social and economic role played by SMEs, and how the Great East Japan Earthquake has prompted a renewed recognition of their key role in Japan's supply chains and sustaining the lives of local residents. We continue in Chapter 2 by examining the various steps being taken to preserve the

virtues of these linchpins of industry and community life in the face of the rapid economic downturn and deepening structural issues. These include financial and employment support for SMEs, measures to assist business handovers and business restructuring, and community-based finance.

### Case 2-1-20

### A shopping district that revived by holding a night market and supporting new shops

The Tatebayashi Shitamachi-dori Shopping District in Tatebayashi City, Gunma Prefecture, is a 330-meter long shopping district located an eight-minute walk from Tatebayashi station, which is the main entrance to the city, along a prefectural road. Vacancies in the shopping district increased with a prefectural road widening project from 1988. There had been 43 shops in 1993, and the number of shops fell below 30. The shopping district was gradually losing its vitality, with more empty plots and parking lots as stores shut their doors.

The shopping district was seeking ways to revive business. They took a hint from a night bazaar held in a nearby city upon their visit, and decided to try a night market. The Tatebayashi Downtown Night Market Committee was established centered on the shopping district, with participation from the prefecture, city, chamber of commerce and industry, and citizen volunteers. They began holding the Downtown Night Market on the third Saturday of each month from October 2004. The night market is now in its seventh year.

The market stores hold a monthly study meeting the week after the night market, where established shops give advice to newcomers. This has led a tea shop and a gelato shop to open new stores in the shopping district. There are now many applicants who want to open stores in the night market, so a screening process has been established with an emphasis on renewing the city and promoting commerce.

The city makes every effort to promote the night market when it is held each month, with announcements by city vans with loudspeakers and the distribution of information to elementary schools and nurseries. The night market includes participation from people of different generations and perspectives, including local high school booths, as well as college students and other volunteers. It has become a lively event that draws together the local community. Through the night market, the Tatebayashi Shitamachi-dori Shopping District is leading community revival in Tatebayashi City.



Tatebayashi Downtown Night Market



**Case  
2-1-21**

**A shopping district developing numerous community-based businesses to secure shop owner revenues and employment**

The Towa Ginza Shopping District in Adachi City, Tokyo, is a shopping district located about seven minutes on foot, or about 500 meters from JR Kameari station. The shopping district is in the middle of a residential district and long supported the lives of local residents, but business gradually declined as several large supermarkets were opened within one kilometer. The conditions grew critical, and it seemed the shopping district would eventually have to close.

Amid this trend, in 1990 the Tokyo Metropolitan Government was looking to consign the restaurant and sales concessions at a hospital they were building in an adjacent ward. The shopping district was very eager to participate, and formed Amour Towa Co., Ltd. to implement the consigned works, with investments from about half the shopping district members.

Based on the experience gained in operating the hospital shop and restaurant, the company then expanded into providing lunches in Adachi City elementary schools. The community appreciated that the lunches were prepared by local women with children attending the schools, and Amour Towa now provides food at more than 20 elementary schools, nurseries and social welfare facilities.

Under contract from a Council of Social Welfare that was concerned about the increasing number of elderly people living alone, Amour Towa is also providing a meal delivery service to senior citizens, which includes confirming that the clients are all right. This business is not profitable on a stand-alone basis, but in recognition of its importance local residents place orders with Amour Towa for food at special events and parties, so their catering services realize a profit overall.

Amour Towa is providing employment to local residents, starting with the over 200 shopping district members under the philosophy “We improve our own town ourselves.” They are developing many community-based businesses as a non-profit company.



Preparing food for delivery to senior citizens

**Case  
2-1-22**

**A shopping district working to stimulate sales together with large stores nearby**

The Omotecho Shopping District in Okayama City, Okayama Prefecture is located in an urban area about a kilometer, or a 13-minute walk from JR Okayama station. It serves a wide area centered on the Tenmaya department store.

The shopping district was becoming less competitive with the increase in big-box stores in the suburbs and redevelopment around Okayama station, leaving more empty shops and fewer customers. In response, the shopping district arranged a project together with Tenmaya, Okayama Lotz, Cred Okayama and other large stores nearby to stimulate not only the shopping district itself, but the entire area.

Their efforts have included coordinated bargain events when the shopping district shops and large stores all have sales at the same time, as well as common gift certificates that can be used at Tenmaya and the shopping district stores. From March 2011, the shopping district association is also covering costs so that the “Tenmaya More” and other Tenmaya credit cards can now be used to pay for goods at about 200 shopping district stores.

The shopping district is conducting the common gift certificate and credit card businesses on a commercial basis and using the profits gained as funds for sales promotion. These projects are planned by a business promotion committee which includes personnel from the large stores.

Together with Omotecho Shopping District events and other initiatives, the efforts to promote the overall shopping district area have successfully increased customer traffic in recent years.



Tenmaya credit cards that can be used in the Omotecho Shopping District

## Case 2-1-23

### A shopping district where vacancies declined from improving the environment, holding events, and providing home delivery services in dialog with the community

The Konyamachi Shopping District in Hamada City, Shimane Prefecture is located in an urban area about 1.2 kilometers, or a 15-minute walk from JR Hamada station.

The shopping district was declining as it faced more competition with the opening of the Hamada Expressway, and the number of vacant shops rose as elderly shop owners retired. A questionnaire survey conducted in 1993 revealed that the shopping district had low name recognition and awareness among nearby residents, and showed dissatisfaction with the shopping environment and the level of services provided. Taking these results to heart, the shopping district worked at improving the environment, providing better services and reducing the number of vacant shops toward creating a shopping district that is responsive to the community.

They worked to improve the shopping environment by resurfacing the street with colored pavement and installing innovative, retro-style street lights with subsidies from the prefecture and the city. Efforts to improve services include annual "shopping district modernization lectures" to boost the abilities and awareness of each shop. The shopping district also holds monthly events such as Saturday markets, tug-of-war contests and specialty food markets, creating opportunities to gain recognition in the community. The district is now hosting a popular "Future Picassos Exhibit" which displays pictures by pre-school children, with the participation of all 21 nearby kindergartens and nurseries.

These positive efforts have resulted in a large number of applications to open shops in recent years. The shopping district now has just two openings, compared with 15 vacancies 15 years ago. They host school trips from elementary schools and commercial high schools, and organize university street performance events. The Konyamachi Shopping District continues developing as a shopping district deeply rooted in the local community, and is playing an essential role for traditional culture and as a neighborhood center.



"Future Picassos Exhibit" awards ceremony

## Column 2-1-9 "Shopping refugees"

In Japan, the number of areas lacking places to shop and transportation means to shop which are essential for daily life is rising, especially in depopulated zones and large housing compounds in suburban areas. The number of so-called "shopping refugees" who face difficulty in daily shopping is growing and has reached six million, according to METI's estimates.

The reasons behind this are population decline, the aging of society and the decreasing fertility rate. According to the National Institute of Population and Social Security Research, the population of Japan is projected to go on declining from 127.12 million in 2010 to 115.22 million in 2030, and 95.15 million in 2050. In some regions, the population will decline by 1% per year. As consumption decreases along with declines in regional populations and Japan becomes an aged society, the operation of the automobile-based store locations that have been popular to date will become increasingly difficult.

From the commercial business perspective, these changes in the environment suggest a reduction to much smaller geographical trade areas and sharply reduced sales per shop sales. Regions with large numbers of "shopping refugees" are those that have been viewed as unsuitable for business. In recent years, however, some businesses are grasping the potential demand of "shopping refugees" as a new frontier, and moving forward with advanced approaches using such methods as (1) thoroughly improving operating efficiency by applying IT and realizing more efficient distribution, (2) fusing national chain development with strong local roots, and (3) forming ties and sharing resources among diverse local businesses.

The problems emerging in localities with a large number of "shopping refugees" foretell the future problems that will be faced by all of Japan as the aging of society and the decline in the fertility rate progresses. Even when sales drop at the macroeconomic level, sales and profits can be increased in certain cases by examining advanced business models at an early stage.

The METI launched a Study Group on the Role of Distribution Systems in Community Infrastructure two years ago. The Council met eight times, and compiled leading examples and approaches into a collection that was published this spring.<sup>48)</sup>

The "shopping refugee" issue may provide hints for building businesses with more sophisticated means to gain higher revenues if this makes enterprises squarely address and analyze the facts and trends of population decline, the aging of society, and the consequent large decreases in sales revenues.

48) The Council published the *Shopping Refugee Support Manual* (1st edition) collection of leading examples and approaches by businesses responding to "shopping refugees" in December 2010, and published an expanded edition (2nd edition) on May 30, 2011 after collecting more leading examples nationwide.

## Column 2-1-10 Enterprises and groups supporting local economies in the disaster regions

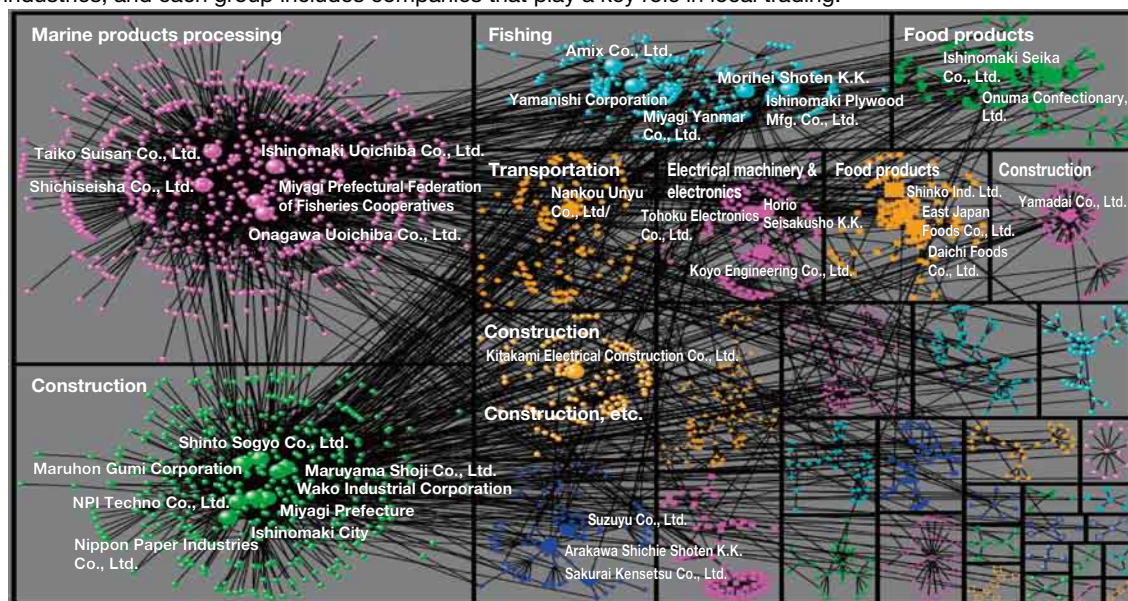
As we saw in Chapter 2 of Part I, the tsunami-affected regions suffered devastating damages so great that the foundations for industry and daily life were lost. The tsunami had a huge impact on the fishing industry, derivative food processing, and many other local industries. Yet as we have also seen in this chapter, the local economies in the disaster regions are being supported by SMEs and shopping districts, which play a central role in communities.

In this column we examine the regional economy trading structure focusing on enterprise transactions in the Ishinomaki urban employment area (Ishinomaki City, Higashimatsushima City, and Onagawa Town) as one example. Column Figure 2-1-10 (1) presents data on 2,285 companies that are suppliers in the Ishinomaki urban employment area recorded by Teikoku Databank's *SPECIA Industry Survey and Analysis*, categorized into groups of companies with close trading relations.

These include groups of companies engaged in the marine products processing, construction and fishing industries, and each group includes companies that play a key role in local trading.

### Column Fig. 2-1-10 (1) Enterprise trading structure in the Ishinomaki urban employment area

The local economies which suffered damages in the disaster areas are being supported by enterprises and groups which play a central role in their communities. If we take the Ishinomaki urban employment area as one example, focus on business transactions, and categorize enterprises into groups of companies with close trading relations, we find there are groups of companies engaged in the marine products processing, construction and fishing industries, and each group includes companies that play a key role in local trading.



Source: Prepared with assistance from Professor Ichiro Sakata and Assistant Professor Junichiro Mori of Todai Policy Alternatives Research Institute (the University of Tokyo), using Teikoku Databank, Ltd.'s *SPECIA Industry Survey and Analysis* data.

- Notes
1. The Ishinomaki urban employment area comprises Ishinomaki City, Higashimatsushima City, and Onagawa Town.
  2. Aggregated from transactions among companies that are suppliers in the Ishinomaki urban employment area.
  3. The squares marked with bold lines denote the groups of companies. The regular lines indicate transactions.
  4. The large dots in each group of companies identify the main core companies and intermediary companies. The small dots show the other companies.
  5. This analysis does not reflect transaction scale (transaction amount), and does not include certain enterprises such as those with headquarters outside the Ishinomaki urban employment area.

Next, Column Figure 2-1-10 (2) shows that among the 35 groups of companies in the Ishinomaki urban employment area, the top three groups comprise about 400 companies with around 8,700 employees and sales of approximately ¥455 billion. Together, they account for 50-60% of all the companies, employees, and sales in the area.<sup>49)</sup> Moreover, the top three groups of companies are engaged in the marine products processing, construction and fishing industries. The analysis shows that these groups of companies, and the core enterprises in these groups, play extremely important roles in the local economy.

49) In the tsunami-affected regions, agriculture, forestry and fishing companies account for about 1% of the total number of companies, and fishing provides about 2% of total employment (Figure 1-2-4). This analysis does not include certain enterprises such as those with headquarters outside the Ishinomaki urban employment area.

**Column Fig. 2-1-10 (2) Number of enterprises, number of employees and sales at the main groups of companies in the Ishinomaki urban employment area**

Among the 35 groups of companies in the Ishinomaki urban employment area, the top three groups account for 50-60% of the 748 enterprises, 17,000 employees, and ¥757 billion in sales in the area; these groups of companies, and the core enterprises in these groups, play extremely important roles in the local economy

Industry category	No. of enterprises in area	Percentage of area enterprises	No. of employees in area	Percentage of employees in area	Sales in area (¥ million)	Percentage of sales in area	Core enterprises
Marine products processing	162	21.7%	3,641	21.6%	312,946	41.3%	Ishinomaki Uoichiba Co., Ltd., Taiko Suisan Co., Ltd., Onagawa Uoichiba Co., Ltd., Shichiseisha Co., Ltd., Miyagi Prefectural Federation of Fisheries Cooperatives, etc.
Construction	179	23.9%	3,773	22.4%	83,993	11.1%	Public works: Wako Industrial Corporation, Shinto Sogyo Co., Ltd., Maruhon Gumi Corporation, Maruyama Shoji Co., Ltd., etc.
Fishing	60	8.0%	1,318	7.8%	58,536	7.7%	Yamanishi Corporation, Morihei Shoten K.K., Miyagi Yanmar Co., Ltd., etc.
Subtotal	401	53.6%	8,732	51.9%	455,475	60.2%	
Total	748	100.0%	16,826	100.0%	756,985	100.0%	

Source: Prepared with assistance from Professor Ichiro Sakata and Assistant Professor Junichiro Mori of Todai Policy Alternatives Research Institute (the University of Tokyo), using Teikoku Databank, Ltd.'s *SPECIA Industry Survey and Analysis* data.

- Notes:
1. The Ishinomaki urban employment area comprises Ishinomaki City, Higashimatsushima City, and Onagawa Town.
  2. Aggregated from transactions among companies that are suppliers in the Ishinomaki urban employment area.
  3. This analysis does not reflect transaction scale (transaction amount), and does not include certain enterprises such as those with headquarters outside the Ishinomaki urban employment area.

Considering these conditions of the local economy, from the perspective of corporate activity and local employment, it is important to intensively invest limited policy resources in those enterprises and groups of companies that are the core of the local economy, for the early recovery of the disaster areas.<sup>50)</sup>

50) Considering such local economic conditions, the government is providing aid to groups of companies that are the core of community revival. See Column 1-2-1.

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## Chapter 2

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### Measures to preserve SMEs' virtues

In Chapter 1, we described the important role played by SMEs in the Japanese economy and society. In this chapter, we examine what action is required to preserve the virtues of SMEs as the bedrock of industry and communities in the face of the rapid economic downturn and deepening structural issues. Having observed in Chapter 2 of Part I the effects of the earthquake on SMEs, we begin this chapter with an analysis of the measures employed to assist SMEs during such downturns, focusing in particular on the financial and employment support provided in the wake of the Lehman crisis. We then move on to analyze the responses to deepening structural issues, including the decline of domestic demand and growing competition due to increasing globalization.

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#### Section 1 Responses to rapid economic downturn

A series of economic measures were put into effect during the sharp economic downturn following the Lehman crisis in 2008, including the provision of financial support for SMEs (such as the counter-cyclical Emergency Guarantee Program<sup>1)</sup>, safety net lending, and counter-crisis loans), employment support (in the form, for example, of employment adjustment subsidies), and measures targeted

at small and medium subcontractors. Focusing on the first types of support—financial and employment related—we review the countermeasures adopted at that time as we investigate the support provided for SMEs during rapid downturns. It should be noted that the Government is also implementing a variety of support measures for SMEs<sup>2)</sup> to help them cope with the effects of the earthquake.

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##### [1] Financial support for SMEs

###### ● Financial support for SMEs immediately following the Lehman crisis

The world financial crisis triggered by the Lehman crisis from the autumn of 2008 also heightened tension in Japan's financial markets, particularly in the short-term money markets. As concern over SMEs' finances mounted, the Government compiled a total of four supplementary budgets in fiscal 2008 and 2009, and implemented a series of measures to ease their financial positions. These included the counter-cyclical Emergency

Guarantee Program, safety net lending, counter-crisis loans, and promotion of loan modifications.<sup>3)</sup> Particular attention was paid to delivering generous support through the counter-cyclical Emergency Guarantee Program, which was allocated a budget of ¥2.7 trillion.<sup>4)</sup>

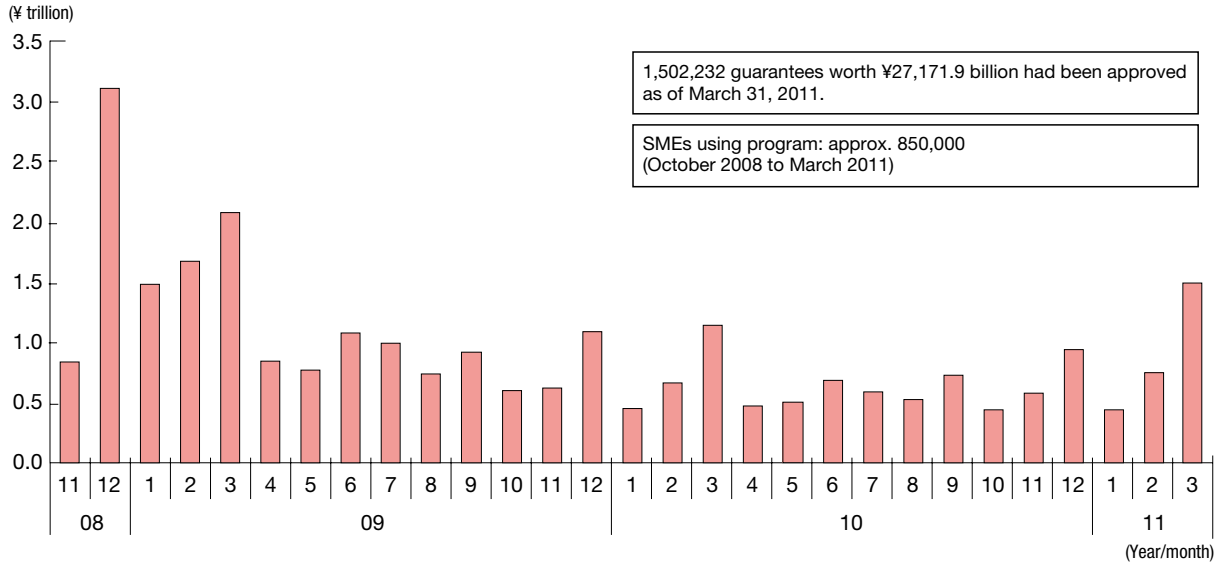
Guarantee approvals on a monthly basis under the counter-cyclical Emergency Guarantee Program were initially high, exceeding ¥3 trillion in some months. The program therefore appears to have made a certain contribution to ensuring that ample funding made its way to SMEs at a time when their capital needs were rising rapidly (Fig. 2-2-1).

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1) The Emergency Guarantee Program to Cope with Raw Material Price Hikes, the Emergency Guarantee Program, and the counter-cyclical Emergency Guarantee Program are referred to collectively as the "counter-cyclical Emergency Guarantee Program." Details of the counter-cyclical Emergency Guarantee Program are outlined in Appended Note 2-2-1.  
2) Regarding support provided for SMEs affected by the Great East Japan Earthquake, see Chapter 2 of Part I.  
3) See p. 60 of *2010 White Paper on Small and Medium Enterprises in Japan*.  
4) For details of budgetary provision for implementation of the counter-cyclical Emergency Guarantee Program, see p. 62 of *2010 White Paper on Small and Medium Enterprises in Japan*.

**Fig. 2-2-1 Guarantees approved under the counter-cyclical Emergency Guarantee Program**

A total of more than 1,500,000 guarantees worth more than ¥27 trillion have been approved since the program's launch in October 2008.



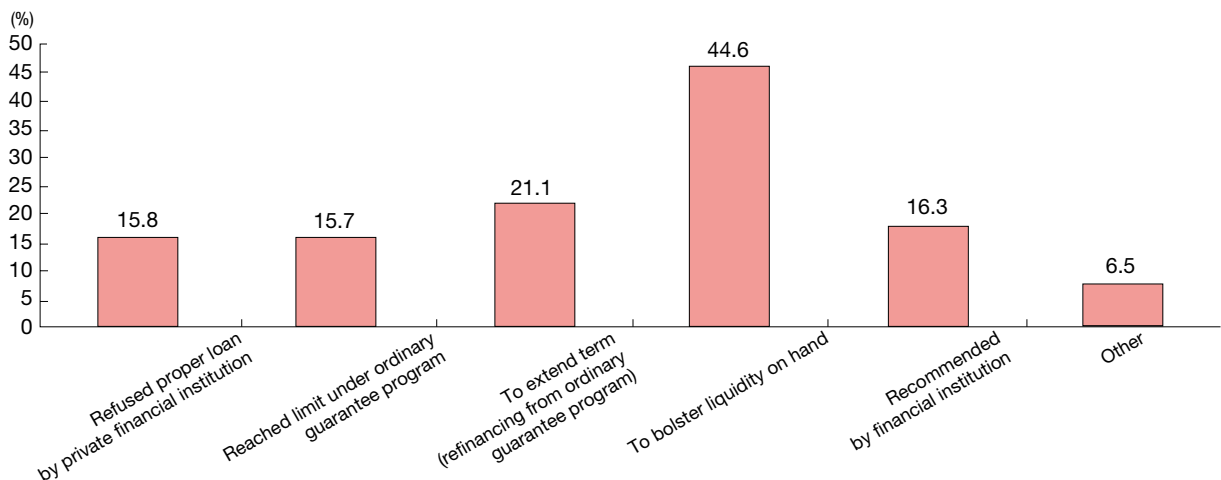
Source: Compiled by SME Agency.  
 Note: Approvals on October 31, 2008, are included in the total for November 2008.

An examination of the reasons given for using the counter-cyclical Emergency Guarantee Program according to *Survey of the Management Environment*<sup>5)</sup> reveals that

over 40% of enterprises responded “to bolster liquidity on hand” (Fig. 2-2-2).

**Fig. 2-2-2 Reasons for use of the counter-cyclical Emergency Guarantee Program**

Over 40% of enterprises responded “to bolster liquidity on hand.”



Source: SME Agency, *Survey of the Management Environment* (November 2010).  
 Notes: 1. Only SMEs that used the Counter-cyclical Emergency Guarantee Program are included in the above.  
 2. Totals do not necessarily sum to 100 due to multiple responses.

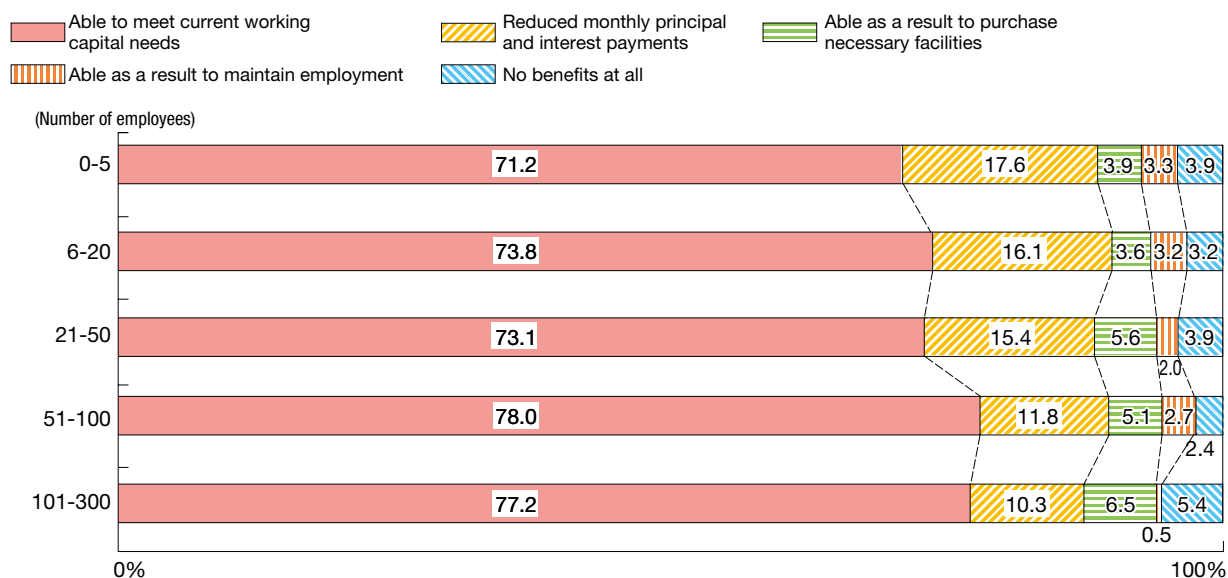
5) This consisted of a questionnaire survey of approximately 30,000 enterprises, and was conducted by the SME Agency in November 2010. The response rate was 20.2%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

Fig. 2-2-3 shows what are considered to be the biggest benefits of using the counter-cyclical Emergency Guarantee Program, from which it can be seen that over

70% of enterprises, irrespective of size, responded "able to meet current working capital needs."

**Fig. 2-2-3 Biggest benefits of using the Counter-cyclical Emergency Guarantee Program**

Regardless of size, over 70% of enterprises responded "able to meet current working capital needs."



Source: SME Agency, *Survey of the Management Environment* (November 2010).

Note: Only SMEs that used the Counter-cyclical Emergency Guarantee Program are included in the above.

These findings too demonstrate that the counter-cyclical Emergency Guarantee Program made a considerable contribution to meeting SMEs' short-term demands for funds in the immediate wake of the Lehman crisis. Indeed, according to the National Federation of Credit Guarantee Corporations, the counter-cyclical Emergency Guarantee Program has been used by some 850,000 SMEs since its launch in October 2008.

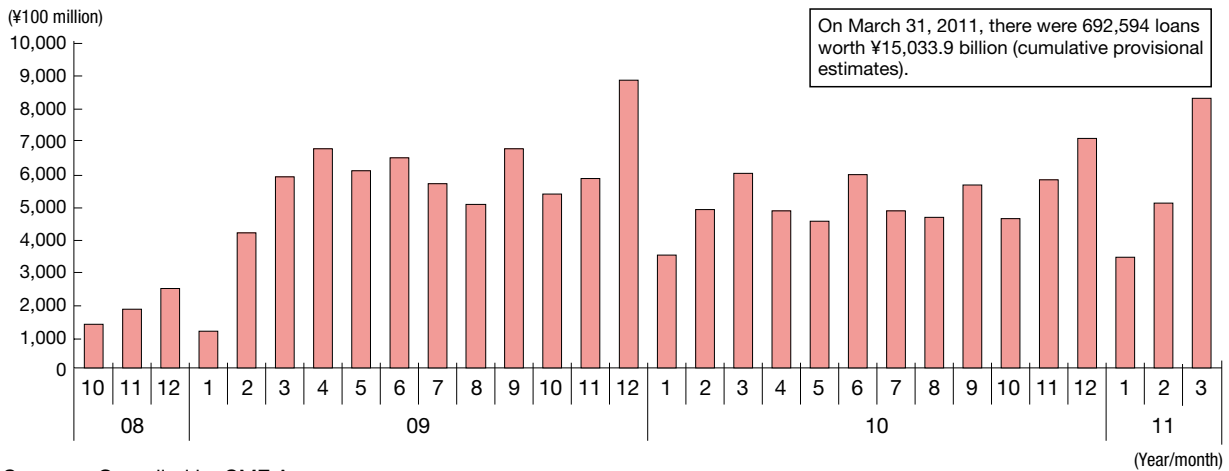
**● Changing needs for financing support**

Monthly figures on approvals under the counter-cyclical Emergency Guarantee Program show that the level initially remained high, as noted above. Since April

2009, however, approvals have kept low, and even in busier months, loans worth only around ¥1 trillion have been guaranteed. Monthly safety net lending and counter-crisis loans to SMEs exhibit a similar pattern, falling from approximately ¥900 billion in December 2009 to between ¥400 billion and ¥700 billion from January 2010. This indicates that the need for financing support of this kind has eased. However, due in part to fiscal year-end seasonal factors and the effect of the earthquake, use of the counter-cyclical Emergency Guarantee Program rose to over ¥1.5 trillion in March 2011, and safety net lending and counter-crisis loans to SMEs similarly exceeded ¥800 billion (Figs. 2-2-1 and 2-2-4).

**Fig. 2-2-4 Safety net lending and counter-crisis loans to SMEs**

On March 31, 2011, the number of loans exceeded 690,000 and their combined value came to over ¥15 trillion.



Source: Compiled by SME Agency.

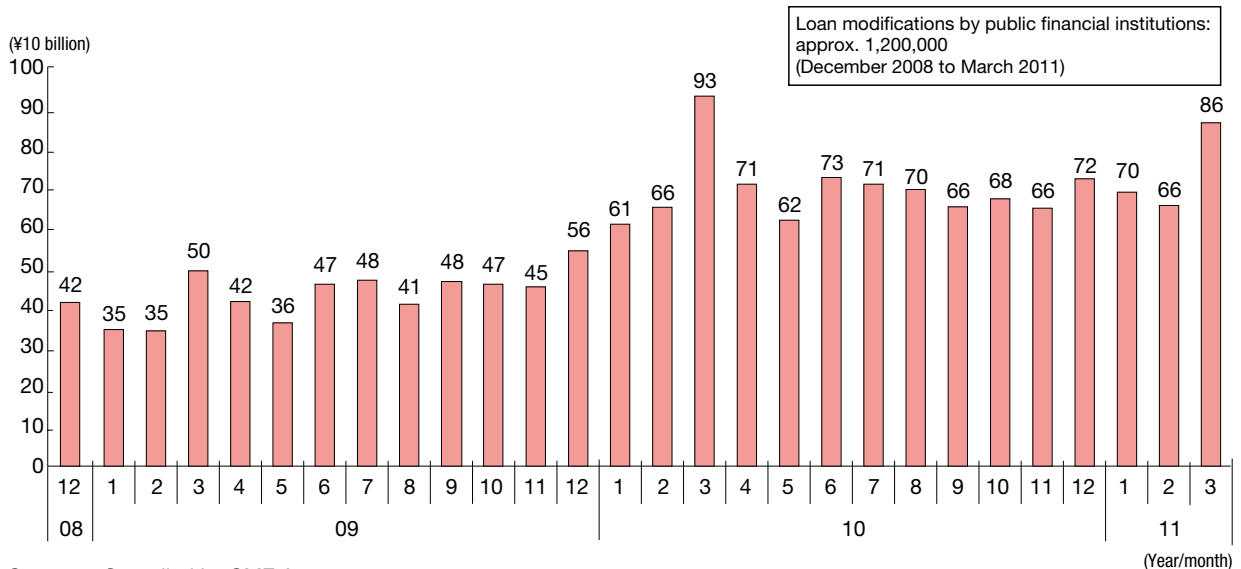
- Notes:
1. Sum of safety net lending by JFC's Micro Business and Individual Unit and SME Unit, and counter-crisis loans for SMEs by Shoko Chukin Bank.
  2. Shoko Chukin Bank began offering counter-crisis loans on January 31, 2009.

The figures on loan modifications by public financial institutions, on the other hand, show that while around ¥600 billion to ¥700 billion of loans were modified on a monthly basis in fiscal 2010, fiscal year-end seasonal factors and the effects of the earthquake pushed this figure

over ¥860 billion in March 2011. As a result, modifications in fiscal 2010 increased 33.4% from the previous fiscal year. A combined total of around 1.20 million loans were modified between December 2008 and March 2011 (Fig. 2-2-5).

**Fig. 2-2-5 Loan modifications by public financial institutions**

The monthly amount hovered between ¥600 billion and ¥700 billion in fiscal 2010, but exceeded ¥860 billion in March 2011.



Source: Compiled by SME Agency.



Thus while from the beginning of fiscal 2010 use of the counter-cyclical Emergency Guarantee Program and safety net lending eased off, loan modifications rose until the earthquake as demand for funds shifted from new borrowing to reducing the burden of monthly repayments of existing debt.

To accommodate this demand among SMEs for loan modifications, the Government has added to existing

measures by allocating ¥33.0 billion yen from the contingency reserve for economic crisis response and regional revitalization to promote modification of loans guaranteed by credit guarantee corporations under the “Three-Step Economic Measures for the Realization of the New Growth Strategy—Emergency Action to Currency Appreciation and Deflation” (Step 1) adopted by the Cabinet on September 10, 2010 (Fig. 2-2-6).

**Fig. 2-2-6 Financing support for SMEs (Three-Step Economic Measures for the Realization of the New Growth Strategy—Emergency Action to Currency Appreciation and Deflation” (Step 1))**

- To continue to fully support SME financing, assistance was provided using the contingency reserve for economic crisis response and regional revitalization in accordance with economic measures adopted by the Cabinet on September 10, 2010.

Completed action funded by the contingency reserve for economic crisis response and regional revitalization (Step 1): ¥33.0 billion

- (1) Promotion of modification of guaranteed loans
- (2) Lowering of interest rates for funding of capital investment  
Steps were also taken in the second half of fiscal 2010 to reduce the interest rates paid by enterprises undertaking long-term capital investment, etc.  
(0.5% point reduction of interest rates offered by JFC and Shoko Chukin Bank)
- (3) Establishment of special consultation service for SMEs, etc. affected by the strong yen  
(provided by JFC and other organizations in 987 locations throughout Japan)
- (4) One-stop service day to facilitate access to SME support measures  
(held on a total of 95 occasions in all prefectures between October and early December 2010)

Furthermore, these measures were accompanied by the entry into effect on December 4, 2009, of the SME Financing Facilitation Act<sup>6)</sup> to promote loan modifications with financial institutions. Below, we analyze the effects of this act.

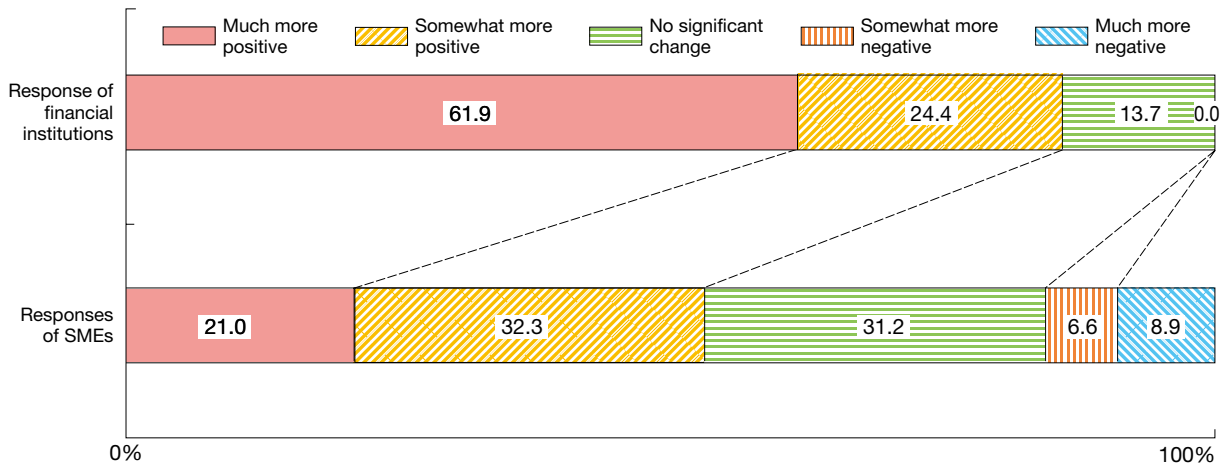
We begin with the comparison in Fig. 2-2-7, which

shows that the attitudes of approximately 90% of financial institutions and approximately 50% of SMEs became more positive toward loan modifications following the act's entry into effect. The act has thus evidently brought about a change in attitudes to loan modifications at financial institutions.

6) Regarding prolongation of the term of effect of the SME Financing Facilitation Act, see Appended Note 2-2-2.

**Fig. 2-2-7 Changes in attitudes to loan modifications by financial institutions (comparison of before and after entry into effect of the SME Financing Facilitation Act)**

Approximately 90% of financial institutions and approximately 50% of SMEs reported having a more positive attitude to loan modifications after entry into effect of the SME Financing Facilitation Act.

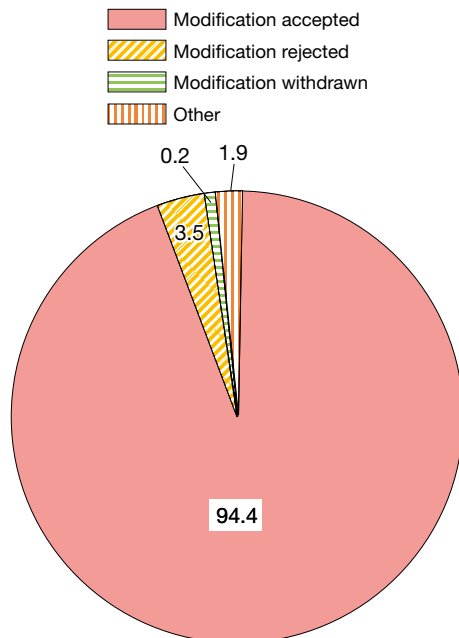


Sources: SME Agency, *Survey of the Management Environment* (November 2010); Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for Small and Medium Enterprises* (November 2010), commissioned by SME Agency.

Note: Only SMEs that applied to a financial institution for a loan modification after the entry into effect of the SME Financing Facilitation Act are included in the above.

**Fig. 2-2-8 Response of financial institution at time of loan modification application (attitudes as perceived by SMEs)**

Over 90% of SMEs responded “loan modification accepted by financial institution.”



Sources: SME Agency, *Survey of the Management Environment* (November 2010)

Note: SMEs that responded that their applications to financial institutions for loan modifications were “under review” are excluded from the above.

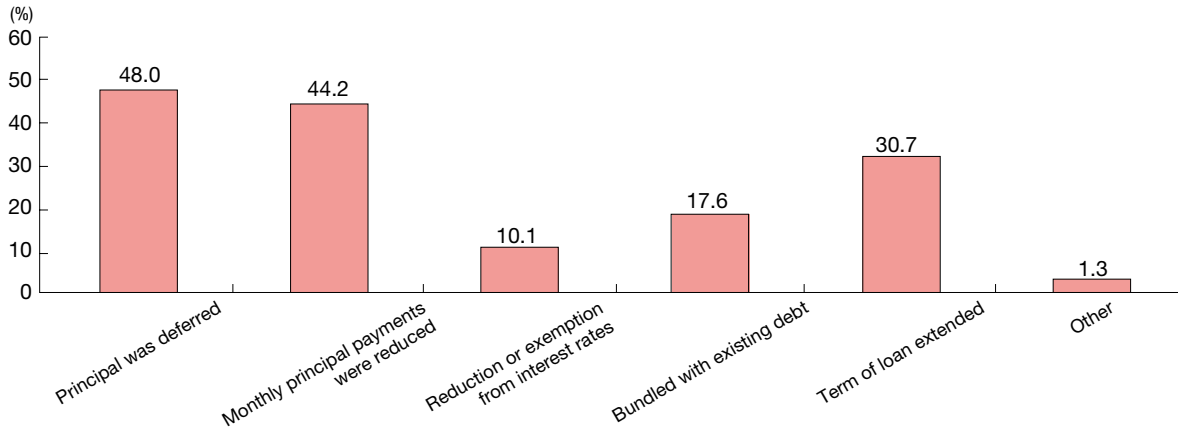
How then did financial institutions respond to loan modification applications by SMEs following the entry into effect of the SME Financing Facilitation Act? Fig. 2-2-8 depicts the responses of financial institutions to such applications. Over 90% of SMEs responded “loan modification application accepted by financial institution,” indicating that financial institutions in almost all cases accommodated modifications.

Looking next at the forms of loan modifications, it can be seen that high proportions of SMEs said that “principal

was deferred” or “monthly principal payments were reduced.”

**Fig. 2-2-9 Forms of loan modifications**

High proportions of SMEs responded “principal was deferred” or “monthly principal payments were reduced.”



Source: SME Agency, *Survey of the Management Environment* (November 2010).

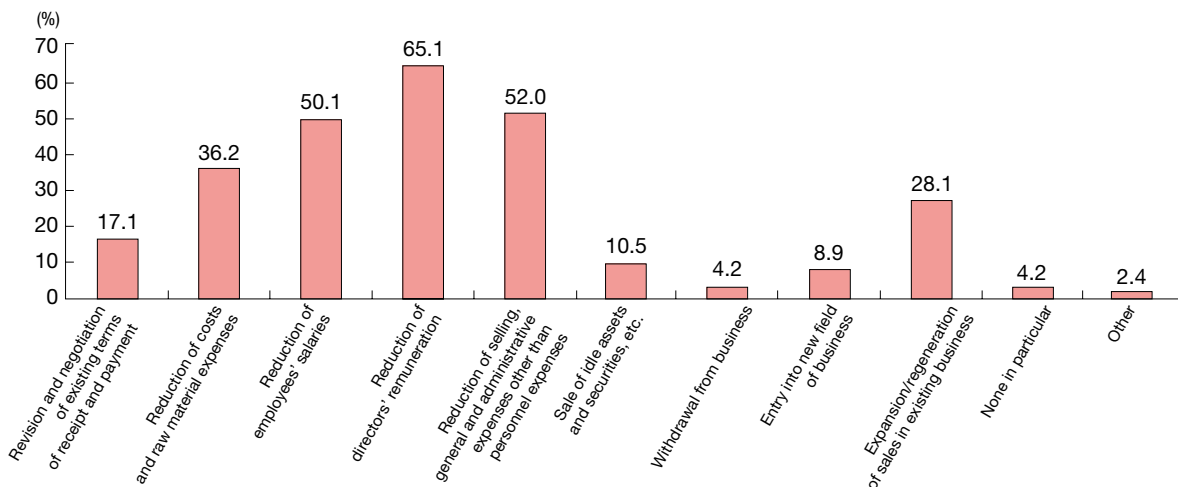
- Notes:
1. Only SMEs that modified a loan following the entry into effect of the SME Financing Facilitation Act are included above.
  2. Totals do not necessarily sum to 100 due to multiple responses.

The question that we consider next is: What types of management efforts do SMEs make while enjoying the benefit of loan modifications such as principal deferrals and reduced monthly principal payments? Fig. 2-2-10 shows the commonest form of action, taken by over 60%, to be “reduction of directors’ remuneration,” followed by “reduction of selling, general and administrative

expenses other than personnel expenses” and “reduction of employees’ salaries,” taken by over 50%. This provides evidence of a focus on measures to reduce costs. On the other hand, few enterprises pursued “expansion/regeneration of sales in existing business” or “entry into new field of business.”

**Fig. 2-2-10 Management efforts made by SMEs during term of loan modification**

Commonest response was “reduction of directors’ remuneration.”

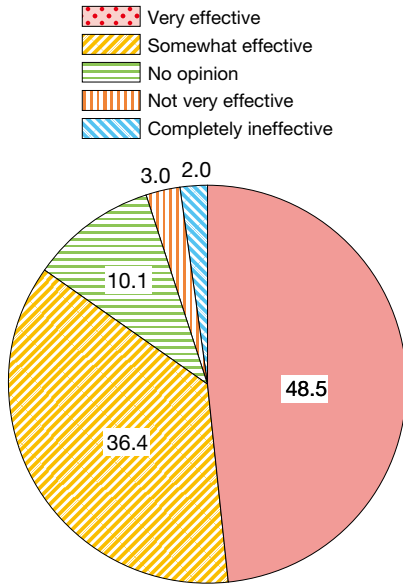


Source: SME Agency, *Survey of the Management Environment* (November 2010).

- Notes:
1. Only SMEs that had a loan modification application to a financial institution accepted are included in the above.
  2. Totals do not necessarily sum to 100 due to multiple responses.

**Fig. 2-2-11 Assessment of impact of SME Financing Facilitation Act on own business**

85% of SMEs that modified loans said that the act was “very effective” or “somewhat effective.”



Source: SME Agency, *Survey of the Management Environment* (November 2010).

Note: Only SMEs that had a loan modification application to a financial institution accepted are included in the above.

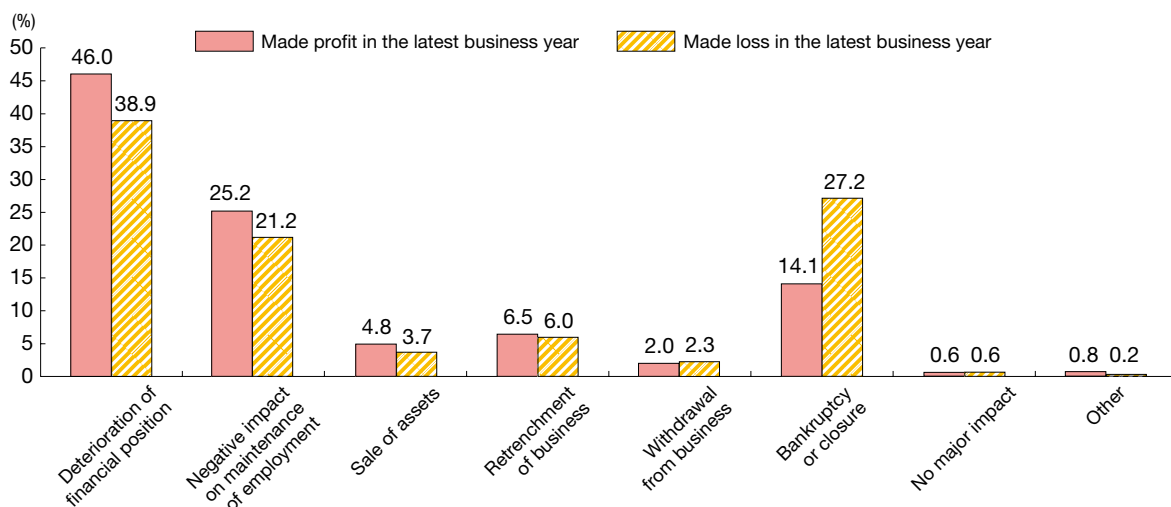
Next we look at opinion among SMEs that have had loans modified of the impact of the SME Financing Facilitation Act on their own businesses, shown in Fig. 2-2-11. It can be seen from this that as many as 85% said it was “very effective” or “somewhat effective.”

Fig. 2-2-12 shows what might have happened to SMEs that had loans modified had there been no SME Financing Facilitation Act. While high proportions of both enterprises that made a profit and those that made a loss in the latest business year responded “worsening of financial position” or “negative impact on maintenance of employment,” notably higher proportions of loss-making enterprises said “bankruptcy or closure” (approximately 30%).

The number of bankruptcies due to “shortage of working capital” has generally declined compared with the same the month a year earlier since the latter half of 2009, providing further evidence that financial support for SMEs has made a certain contribution to curbing the growth in bankruptcies (Fig. 2-2-13). At the moment, however, the trend is again upward due particularly to the impact of the earthquake.

**Fig. 2-2-12 Impact had there been no SME Financing Facilitation Act**

Compared with enterprises that made a profit in the latest business year, higher proportions of loss-making enterprises responded “bankruptcy or closure.”

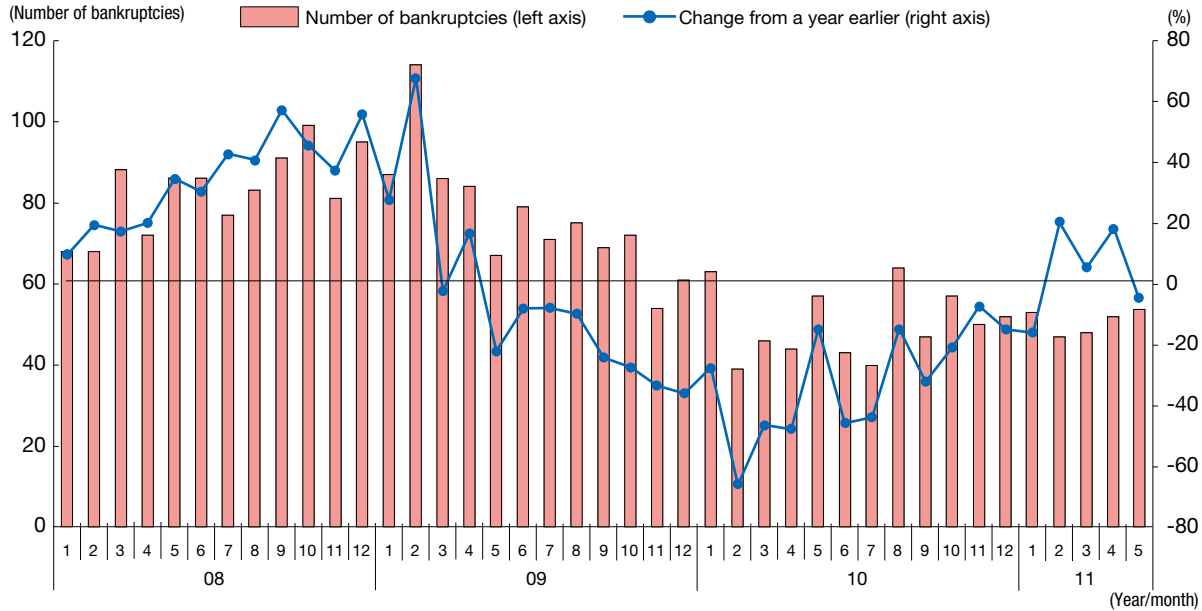


Source: SME Agency, *Survey of the Management Environment* (November 2010).

Notes: 1. Only SMEs that modified a loan following the entry into effect of the SME Financing Facilitation Act are included in the above.  
2. The results were calculated by scoring in order of ranking: 3 points for first, 2 points for second, and 1 point for third.

**Fig. 2-2-13 Number of bankruptcies due to shortage of working capital**

The number of bankruptcies due to shortage of working capital has generally declined compared with the same the month a year earlier since the latter half of 2009, but the trend is again upward at the moment.

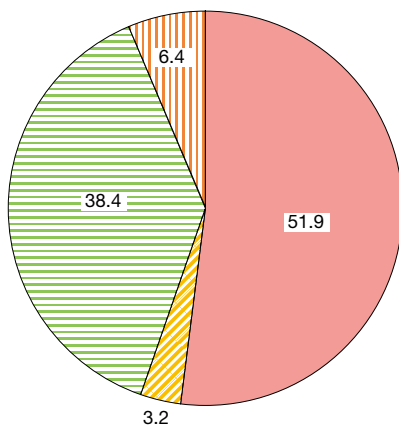


Source: Tokyo Shoko Research Ltd., *Business Failure News (Monthly)*.

**Fig. 2-2-14 Reasons for not applying for loan modification**

The commonest response, accounting for one in two SMEs, was “concern about negative impact on future new borrowing.”

- Concern about negative impact on future new borrowing
- Concern about negative impact on business and business partners
- Would not lead to radical improvement of management
- Other



Source: SME Agency, *Survey of the Management Environment* (November 2010).

Note: Only SMEs with interest-bearing debt that are facing difficulties in repaying borrowing are included in the above.

On the other hand, the reasons given for not applying for a loan modification by SMEs with interest-bearing debt that face difficulties in repaying borrowing are shown in Fig. 2-2-14. “Would not lead to radical improvement of management” is cited by approximately 40% of such SMEs, indicating that some do not consider that loan modification alone would achieve a fundamental resolution of their business problems. The commonest response, given by approximately 50% of SMEs, is “concern about negative impact on future new borrowing.” This suggests that even after the entry into effect of the SME Financing Facilitation Act, many SMEs remain worried about the impact that modification might have on new borrowing.

One strategy adopted to counter this “concern about negative impact on future new borrowing” is the refinancing guarantee system, incorporated in the “Emergency Economic Package in Response to Currency Appreciation and Deflation: Step 2 toward Realization of the New Growth Strategy” adopted by the Cabinet on October 8, 2010. This simultaneously makes possible the following in relation to loans guaranteed by credit guarantee corporations: (1) consolidation of debts, (2) loan modification, and (3) fresh additional lending during the loan modification term, providing that the applicant passes a financial screening (Figs. 2-2-15 and 2-2-16).

**Fig. 2-2-15 Support for financing of SMEs (Emergency Economic Package in Response to Currency Appreciation and Deflation: Step 2 toward Realization of the New Growth Strategy)**

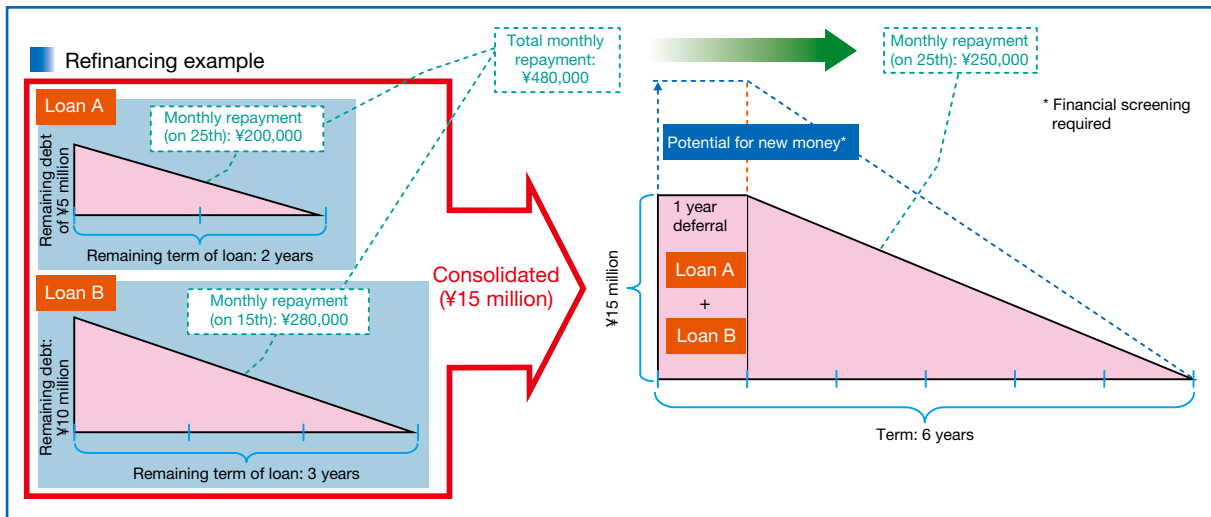
- Assistance worth a total of ¥15 trillion was incorporated into the economic measures approved by the Cabinet on October 8, 2010, in order to maintain full support for financing by SMEs during the peak financing periods at the end of 2010, end of fiscal 2010, and into fiscal 2011.

Measures related to economic package (Step 2): ¥15 trillion program, ¥565.3 billion supplementary budget

- (1) Expansion and promotion of refinancing guarantees  
Expansion and promotion of refinancing guarantees enabling, among other things, (i) consolidation of debt, (ii) easing of repayment terms, and (iii) access to additional funding at the end of both 2010 and fiscal 2010 when SMEs' refinancing needs are greater.
- (2) Safety net guarantees  
Full guarantees for SMEs facing particularly severe business conditions
- (3) Small micro-enterprise guarantees  
Full guarantees worth up to ¥12.50 million of outstanding guaranteed loans for enterprises with 20 or fewer employees (5 or fewer if principally engaged in commerce or services)
- (4) Guarantees for business founders  
Full guarantees for startup founders and SMEs within five years of startup
- (5) Enhancement of direct loans, such as promotion of refinancing by the JFC

**Fig. 2-2-16 Refinancing guarantee system**

- This system enables refinancing of past guaranteed loans to new guaranteed loans



**Benefits of system**

- (1) Monthly repayment burden is reduced by consolidating multiple debts into one and rescheduling the pace repayment (effectively the same as a loan modification).
  - (2) It is also possible to set a new deferral period (effectively the same as repayment grace).
  - (3) Provided that the applicant passes a financial screening, addition of new money is also possible (effectively the same as new lending to the recipient of the loan modification).
  - (4) It also meets SMEs' loan modification needs.
- Note: 80%-guaranteed borrowing has to be refinanced with an 80% guarantee.

● **Need for financial assistance directed toward growth**

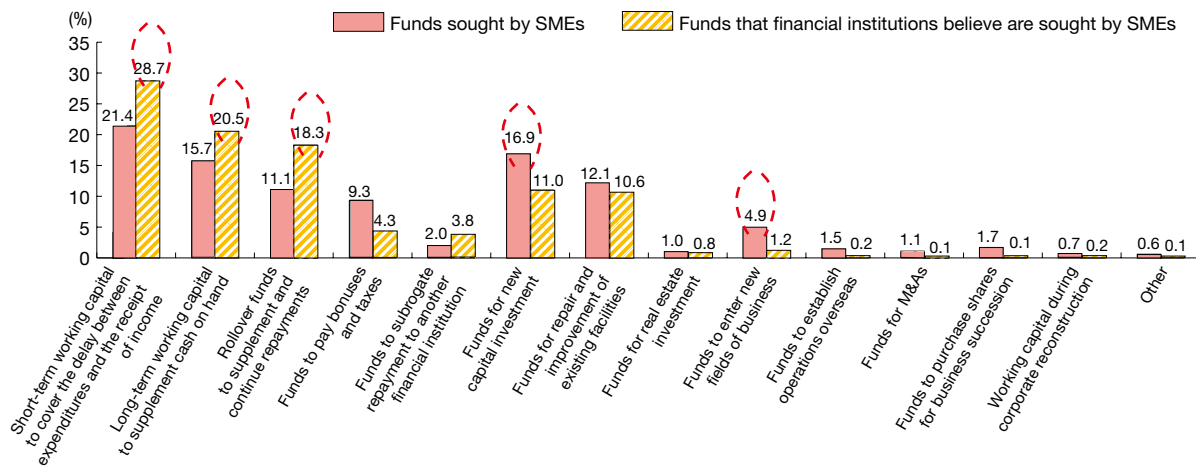
Even in the event of a rapid economic downturn as occurred following the Lehman crisis, there exists a need to accommodate the demand for growth funds that arises once financing support has been implemented.

Fig. 2-2-17 depicts the attitudes of SMEs and financial institutions regarding the new funds sought by SMEs from financial institutions in the future according to the

results of *Survey of the Management Environment* and *Survey of Loans for Small and Medium Enterprises*.<sup>7)</sup> These show that whereas financial institutions believe that SMEs seek “short-term working capital to cover the delay between expenditures and the receipt of income,” “long-term working capital to supplement cash on hand,” and “rollover funds to supplement and continue repayments,” SMEs see a greater need for “funds for new capital investment” and “funds to enter new field of business.”

**Fig. 2-2-17 Purposes of loans sought from financial institutions**

Whereas financial institutions believe that SMEs seek “short-term working capital to cover the delay between expenditures and the receipt of income,” “long-term working capital to supplement cash on hand,” and “rollover funds to supplement and continue repayments,” SMEs see a greater need for “funds for new capital investment” and “funds to enter new fields of business.”



Sources: SME Agency, *Survey of the Management Environment* (November 2010); Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for Small and Medium Enterprises* (November 2010), commissioned by SME Agency.

Note: The results were calculated by scoring in order of ranking: 5 points for first, 4 points for second, 3 points for third, 2 points for fourth, and 1 point for fifth.

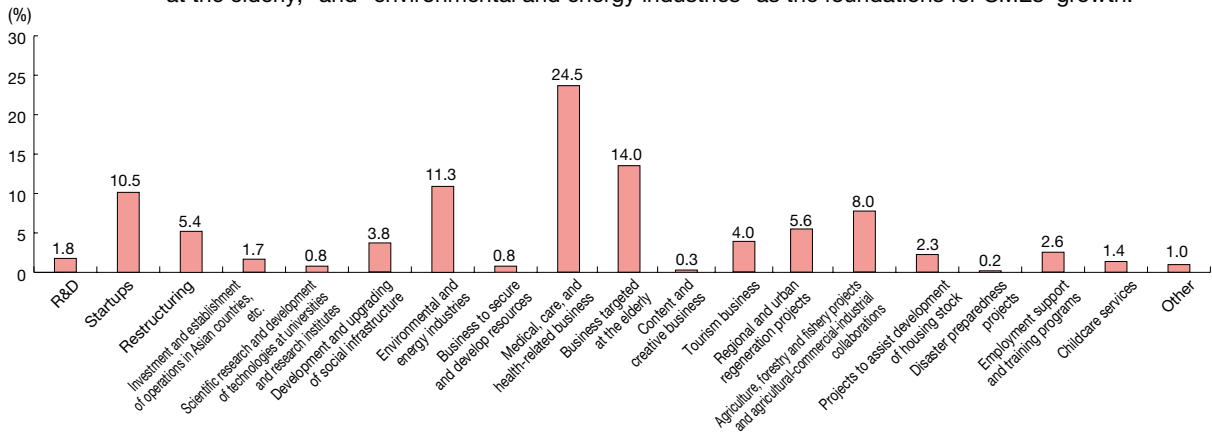
Fig. 2-2-18 shows the fields that financial institutions actively prioritize as the foundations for SME growth. We can see from this that they are particularly actively interested in assisting “medical, care, and health-related business,” “business targeted at the elderly,” and “environmental and energy industries.” Despite presently

facing difficult circumstances due to the effects of the earthquake, it is hoped financial institutions will continue to furnish SMEs with the funds to do business in growth fields and identify the areas of demand for funds needed by SMEs to achieve future growth.

7) Commissioned by the SME Agency and conducted by Mitsubishi UFJ Research & Consulting Co., Ltd. in November 2010. This was a questionnaire survey of 593 ordinary banks, trust banks, credit associations, and credit cooperatives, and the response rate was 90.7%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

**Fig. 2-2-18 Fields actively prioritized by financial institutions as the foundations for SME growth**

Financial institutions actively prioritize “medical, care, and health-related business,” “business targeted at the elderly,” and “environmental and energy industries” as the foundations for SMEs’ growth.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for Small and Medium Enterprises* (November 2010), commissioned by SME Agency.

Note: The results were calculated by scoring in order of priority: 5 points for first, 4 points for second, 3 points for third, 2 points for fourth, and 1 point for fifth.

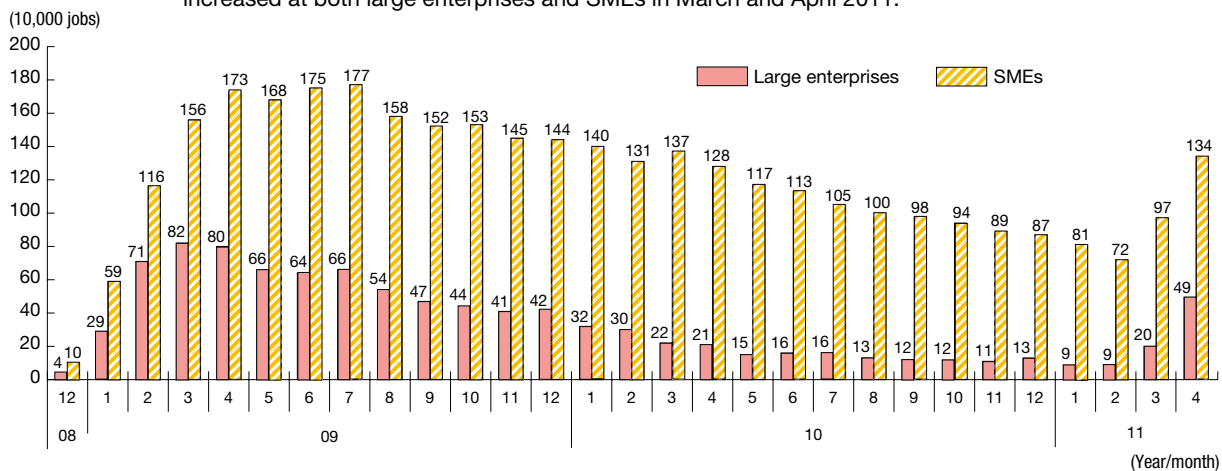
**[2] Employment measures**

Next, we look at employment support in terms of use of employment adjustment subsidies and emergency subsidies to stabilize employment at SMEs (referred to collectively below as “employment adjustment subsidies, etc.”). Fig. 2-2-19 shows that the number of jobs thus subsidized peaked at large enterprises at approximately 820,000 in March 2009, and had declined to around one ninth of this figure to approximately 90,000 in February

2011. At SMEs, on the other hand, the number of jobs covered by employment adjustment subsidies, etc. peaked at approximately 1,770,000 in July 2009, and then went into decline until February 2011. In March and April 2011, however, the number of jobs covered increased at both large enterprises and SMEs. Due to the impact on employment, caused in part by the effects of the earthquake, measures to support employment must continue to be maintained.

**Fig. 2-2-19 Filings of plans for temporary layoffs, etc. for employment adjustment subsidies, etc. (number of jobs covered)**

The number of jobs covered peaked in July 2009 and then went into decline until February 2011, but increased at both large enterprises and SMEs in March and April 2011.



Source: MHLW, *Filing of Plans for Temporary Layoffs, etc. for Receipt of Employment Adjustment Subsidies, etc.*

- Notes: 1. Enterprises that filed to receive SME emergency employment stabilization subsidies are classed as SMEs, and enterprises that filed for other employment adjustment subsidies are classed as large enterprises.
- 2. Where temporary layoffs and training affect the same employee, each is counted once.
- 3. Employees affected by temporary transfers are not included.
- 4. Figures on number of jobs affected are preliminary estimates, and are subject to future revision.



**[3] Shift in support needs from financing and employment to growth assistance**

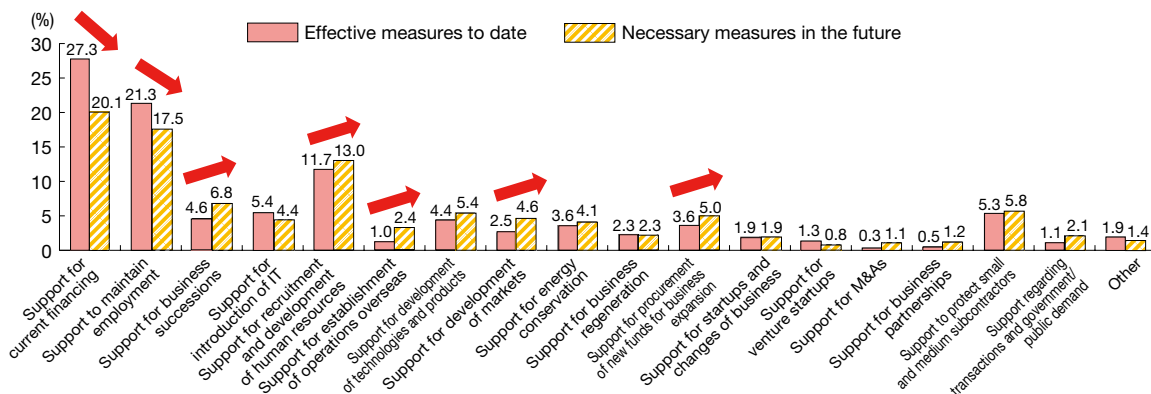
Fig. 2-2-20 shows a comparison of SME support measures considered effective in the past and those regarded as necessary in the future. "Support for current financing" and "support to maintain employment" were cited by high proportions of respondents both as having been effective to date and as being necessary in the future. However, lower proportions regarded them as being

necessary in the future than effective in the past. On the other hand, respondents were more likely to regard the following forms of support as necessary in the future than effective in the past: "support for business successions," "support for development of markets," "support for procurement of new funds for business expansion," and "support for recruitment and development of human resources."

These results point to the ongoing need for current financing support and employment support, and the even greater future need for support for growth.

**Fig. 2-2-20 Comparison of SME support measures considered effective to date and necessary in the future**

"Support for current financing" and "support to maintain employment" were cited by high proportions of respondents both as having been effective to date and necessary in the future. However, lower proportions regarded them as being necessary in the future than effective in the past. On the other hand, respondents were more likely to regard the following forms of support as being necessary in the future than effective in the past: "support for business successions," "support for development of markets," "support for procurement of new funds for business expansion," "support for establishment of operations overseas," and "support for recruitment and development of human resources."



Source: SME Agency, *Survey of the Management Environment* (November 2010).

- Notes:
1. Only SMEs are included in the above.
  2. The results were calculated by scoring in order of ranking: 5 points for first, 4 points for second, 3 points for third, 2 points for fourth, and 1 point for fifth.

To summarize the above, the financing support (such as the counter-cyclical Emergency Guarantee Program) and employment support (such as employment adjustment subsidies, etc.) adopted following the Lehman crisis have made a certain contribution to preventing SME bankruptcies and unemployment among those who work at them. We have also seen that, up until the earthquake, there was considered to be an even greater need to support growth in the future while maintaining support for current

financing and employment. The Government is now committed to providing support for SMEs as part of its strategy of post-quake reconstruction.

We continue in Section 2 by discussing how Japan's SMEs are responding to structural issues, such as worsening fears of a decline in domestic demand due to the effects of the earthquake and intensifying competition due to increasing globalization.

## Section 2 Responses to structural issues

Section 1 analyzed the financing support and employment support measures taken by the Government following the Lehman crisis as two examples of the types of measures taken to help enterprises during a rapid economic downturn. In view of concerns that structural issues such as the contraction of domestic demand and

intensification of global competition could be worsened by the earthquake, the purpose of this section is to analyze the structural issues facing SMEs and discuss the steps being taken in relation to business transfers, business restructuring, and community-based finance.

### [1] Business transfers at SMEs

In addition to the short-term challenges described in Chapter 1 of Part II, such as the rapid economic downturn, strong yen, and deflation, SMEs face a variety of structural issues, including shrinking domestic demand and growing competition due to globalization, which together have caused the number of SMEs in Japan to decline 21.4% from approximately 5.32 million in 1986 to approximately

4.20 million in 2006. The pace of the decline has been particularly far above the average for industry as a whole in manufacturing (down 41.3%) and the retail trade (down 39.3%) (Fig. 2-1-38).

In the cities of Ota in Tokyo, Hamamatsu in Shizuoka, and Higashi-Osaka in Osaka, which have heavy concentrations of manufacturers, there were also declines of 41.9%, 39.6%, and 31.7% respectively between 1986 and 2006 (Fig. 2-2-21).

**Fig. 2-2-21 Numbers of manufacturing establishments in the cities of Ota (Tokyo), Hamamatsu (Shizuoka), and Higashi-Osaka (Osaka)**

Recent years have witnessed significant declines in the number of manufacturing establishments in some of Japan's foremost clusters of SMEs in cities such as Ota in Tokyo, Hamamatsu in Shizuoka Prefecture, and Higashi-Osaka in Osaka Prefecture.

	Number of establishments (1,000s)		Rate of change
	1986	2006	
Ota City, Tokyo	10.2	6.0	-41.9%
Hamamatsu City, Shizuoka Prefecture	9.0	5.4	-39.6%
Higashi-Osaka City, Osaka Prefecture	10.8	7.4	-31.7%
All Japan	874.5	548.5	-37.3%

Source: MIC, *Establishment and Enterprise Census of Japan*.

There are fears that this decline in the number of manufacturing establishments could lead to a decline in the competitiveness of Japan's SMEs. In the next

subsection, we analyze the current situation and issues regarding business transfers at SMEs, and discuss what action is required to assist them.

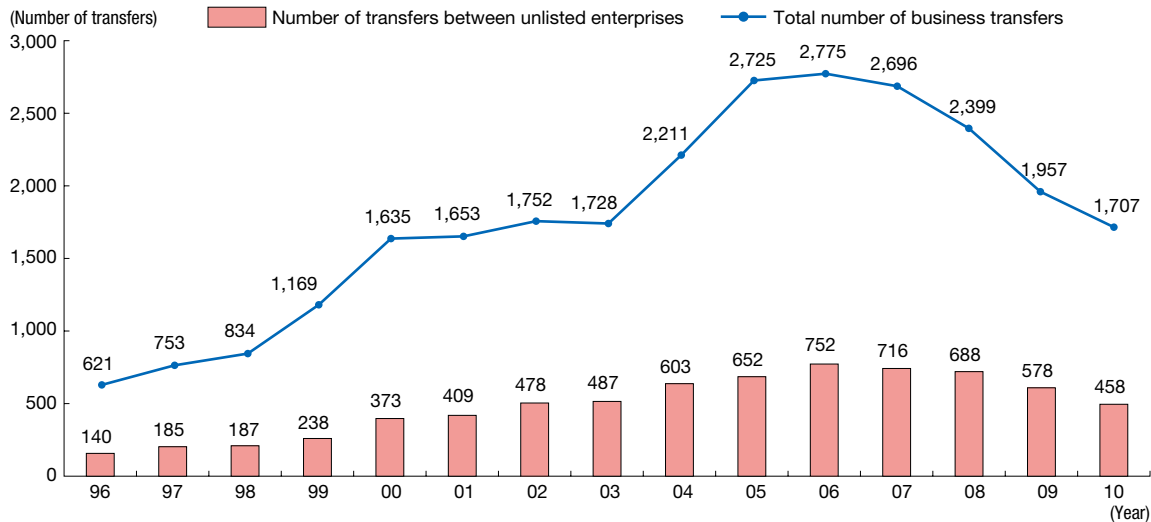
**Current state and purpose of business transfers at SMEs**

We begin by looking at the current state of business transfers at SMEs. Fig. 2-2-22 depicts the total number of business transfers and the number of business transfers

between unlisted enterprises. Due in part to the impact of the economic downturn, recent years have seen declines in both the total number of business transfers and the number of transfers between unlisted enterprises.

**Fig. 2-2-22 Numbers of business transfers**

Due in part to the impact of the economic downturn, recent years have seen declines in both the total number of business transfers and the number of transfers between unlisted enterprises.



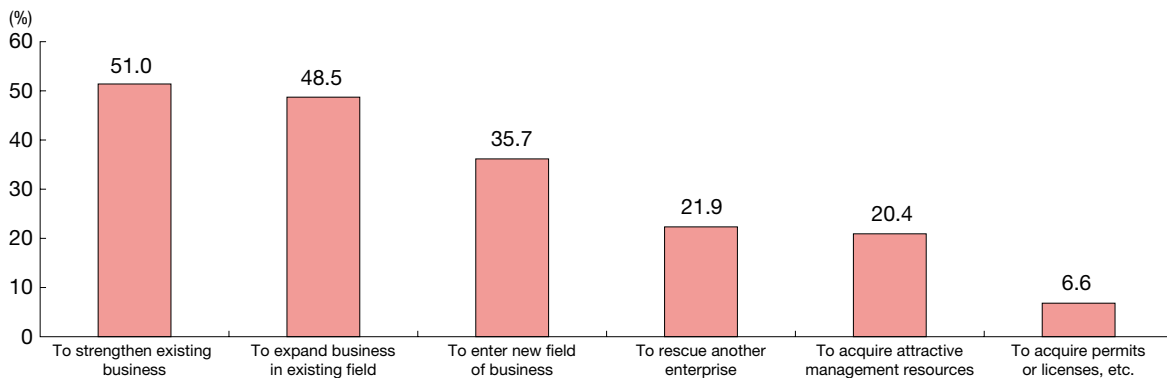
Source: RECOF Corporation.

Next, we consider the purposes of business transfers at SMEs. According to *Fact-finding Survey on Business Transfers at Small and Medium Enterprises*,<sup>8)</sup> the purpose of taking over a business at approximately 50% of SMEs

is “to strengthen existing business” or “to expand business in existing field,” while “to enter new field of business” is also cited by approximately 40% of respondents (Fig. 2-2-23).

**Fig. 2-2-23 Purposes of business takeovers**

Approximately 50% of SMEs say “to strengthen existing business” or “to expand business in existing field.”



Source: Japan Small Business Research Institute (JSBRI), *Fact-finding Survey of Business Transfers at SMEs* (November 2010).  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

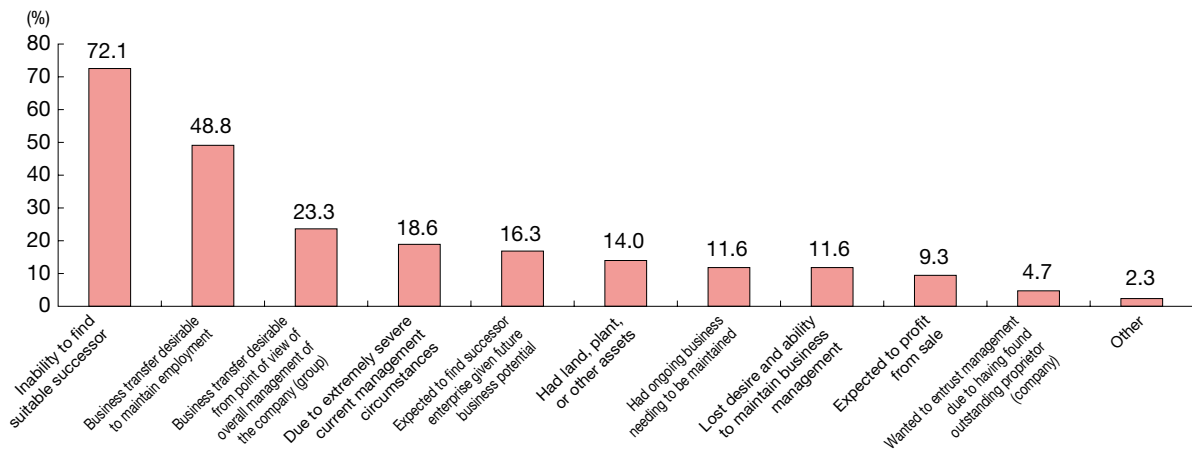
8) Conducted by the Japan Small Business Research Institute (JSBRI) in November 2010. It consisted of a questionnaire survey of approximately 15,000 SMEs, and the response rate was 12.5%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

The commonest purpose given by SMEs for ceding a business, on the other hand, is “inability to find suitable successor,” which is given by approximately 70% of

respondents. Next commonest is “business transfer desirable to maintain employment” (Fig. 2-2-24).

**Fig. 2-2-24 Purposes for ceding businesses**

The commonest purpose, cited by approximately 70%, is “inability to find suitable successor,” followed by “business transfer desirable to maintain employment.”



Source: JSBRI, *Fact-finding Survey of Business Transfers at SMEs* (November 2010).

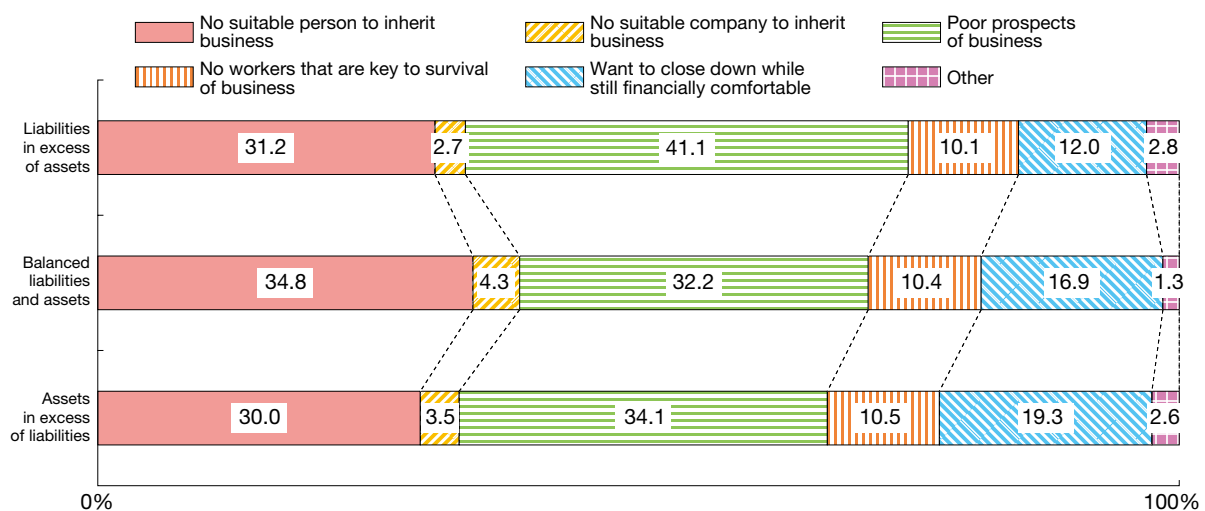
Note: Totals do not necessarily sum to 100 due to multiple responses.

What reasons then do SMEs give for considering closing down business upon own retirement? According to *Survey of Business Transfers*,<sup>9)</sup> approximately 30% of

enterprises give “no suitable person to inherit business” as a reason for doing so, regardless of financial status (Fig. 2-2-25).

**Fig. 2-2-25 Reasons for considering closing down business upon own retirement**

Even 30% enterprises that said that they had “assets in excess of liabilities” responded “no suitable person to inherit business.”



Source: MRI, *Survey of Business Transfers* (December 2009), commissioned by SME Agency.

Notes: 1. Only enterprises that responded “want to close down business upon own retirement” are included in the above.  
 2. “Liabilities in excess of assets” consists of enterprises with “liabilities in excess of assets” and “liabilities slightly in excess of assets”. “Assets in excess of liabilities” consists of enterprises with “assets in excess of liabilities” and “assets slightly in excess of liabilities.”

9) Commissioned by the SME Agency and conducted by MRI in December 2009. It consisted of a questionnaire survey of 15,000 enterprises, and the response rate was 14.7%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

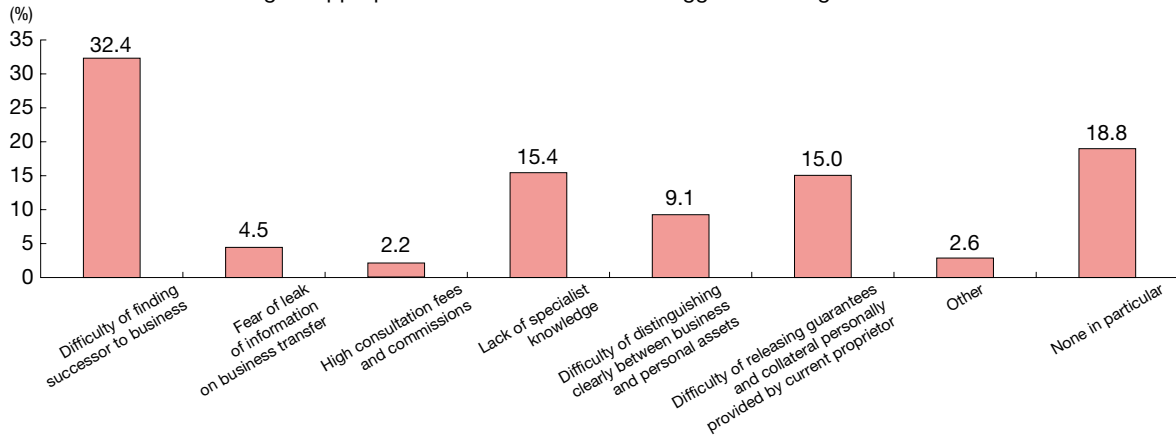
● **Obstacles to business transfers involving SMEs and responses**

Next, we consider the obstacles to business transfers involving SMEs. Of the obstacles encountered during

business transfers shown in Fig. 2-2-26, the commonest is “difficulty of finding successor to business.” This indicates that the biggest challenge in business transfer is finding an appropriate business match.

**Fig. 2-2-26 Obstacles encountered during business transfers**

The commonest obstacle reported by SMEs is “difficulty of finding successor to business,” indicating that finding an appropriate business match is the biggest challenge.



Source: MRI, *Survey of Business Transfers* (December 2009), commissioned by SME Agency.

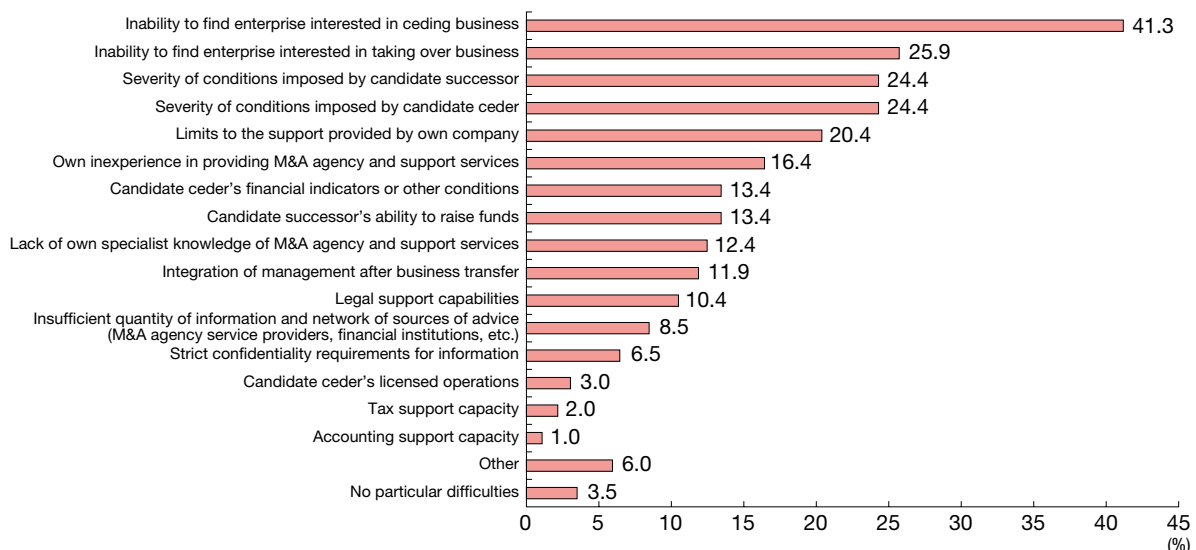
- Notes:
1. Based on SMEs that responded “want to transfer business to any other enterprise after own retirement” regarding the proprietor’s plans for his/her business after retirement.
  2. The results were calculated by scoring in order of obstacles: 3 points for first, 2 points for second, and 1 point for third.

Next, we consider the state of support for business transfers involving SMEs. According to *Fact-finding Survey of M&A Agency and Support Services for SMEs*,<sup>10)</sup>

the commonest obstacle encountered when SME support providers mediate business transfers is “inability to find enterprise interested in ceding business” (Fig. 2-2-27).

**Fig. 2-2-27 Obstacles encountered when mediating business transfers**

The commonest obstacle, cited by approximately 40% of respondents, is “inability to find enterprise interested in ceding business.”



Source: JSBRI, *Fact-finding Survey on M&A Agency and Support Services for SMEs* (November 2010).

Note: Totals do not necessarily sum to 100 due to multiple responses.

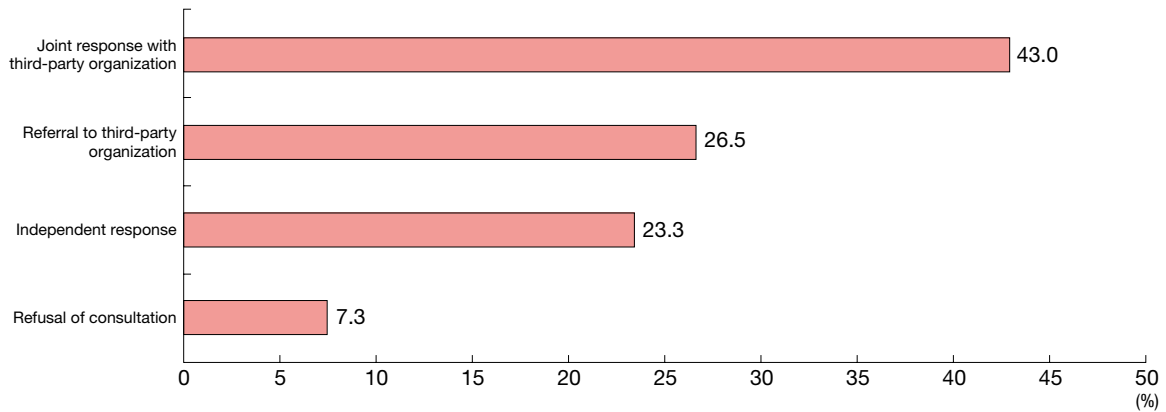
10) Conducted by the JSBRI in November 2010. It consisted of a questionnaire survey of 2,528 ordinary banks, credit associations, certified public accountants, certified public tax accountants, and specialist providers of M&A services. The response rate was 25.0%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

Fig. 2-2-28 shows the responses adopted when consulted about business transfers, from which it can be

seen the commonest response of SME support providers was "joint response with third-party organization."

**Fig. 2-2-28 Responses when consulted about business transfers**

Support providers' commonest response was "joint response with third-party organization."



Source: JSBRI, *Fact-finding Survey on M&A Agency and Support Services for SMEs* (November 2010).

In view of the current state of business transfers and problems faced among SMEs observed above, the Government is assisting SME business transfers between relatives. To facilitate the sound transfer of SME management resources involving non-relatives as well, however, support arrangements are to be developed to handle business continuity consultations (including regarding business transfers) under the Act for Partial Revision of the Act on Special Measures for Regeneration

of Industrial Vitality and Innovation of Industrial Activities (Fig. 2-2-29).

It is hoped that these support arrangements will enable the delivery of support, including advice on business transfers and provision of appropriate information that will resolve the obstacles faced by SMEs with business continuity and transfer problems, and at the same time accelerate the fresh development of operations by SMEs that inherit such SMEs' management resources.

Fig. 2-2-29 Support to facilitate business transfers involving local SMEs

**1. Current situation**

Many local SMEs are no longer able to remain in business under present arrangements. This poses the risk of increased withdrawals from business and bankruptcies, and the loss of local assets including jobs and technologies.

**Problem (1): Management difficulties of local SMEs**  
Regional economies are being battered by the prolonged recession as well as population decline and falling public works, creating more business difficulties for SMEs in the regions.

**Problem (2): Local SMEs' lack of room for maneuver**  
The proprietors of local SMEs are shackled by their wanting to protect employees' jobs and also having heavy debts secured by their own personal guarantees. This forces them to carry on even if they expect business to deteriorate, further worsening their circumstances.

**Problem (3): Insufficient spare capacity to develop new business independently**  
Unable to generate sufficient revenues from existing operations alone, local SMEs need to develop new business. Lacking sufficient people, hardware, funds, and technology, however, it is difficult for them to do so independently.

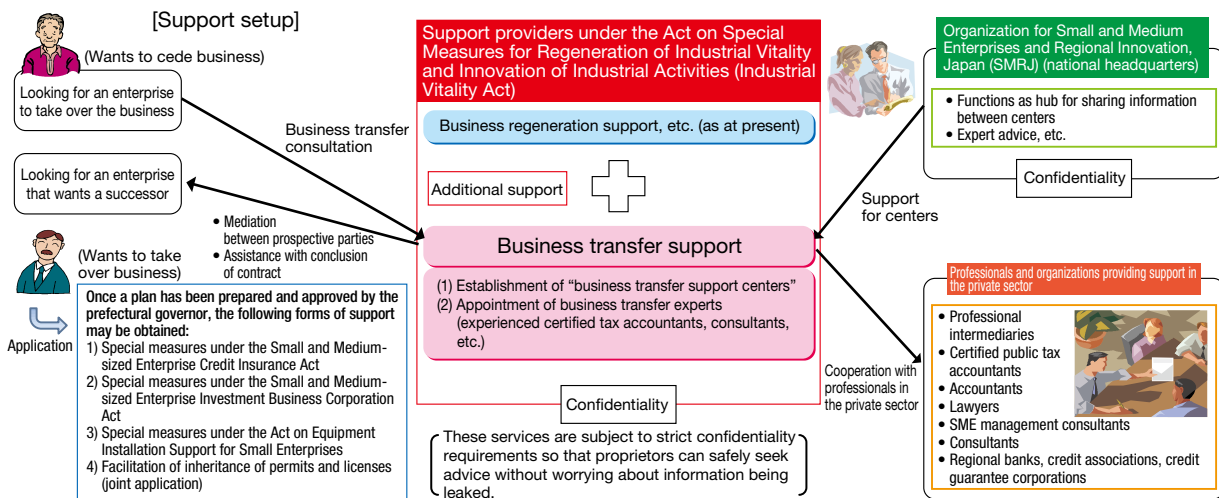
**2. Response**

**(1) Development of business transfer support system**

- 1) Addition of business transfer support services to services provided by support providers established under the Industrial Vitality Act in the revitalization support councils in 47 prefectures, and establishment of "business transfer support centers" (provisional name) to provide these services.
- 2) Appointment of business transfer experts (experienced certified public tax accountants, former bank employees, etc.) bound by confidentiality obligations at these centers.
- 3) These centers will mediate between enterprises interested in effecting business transfers and assist the conclusion of business transfer contracts. Underlined sections indicate measures adopted under revisions to the Act on Special Measures for Regeneration of Industrial Vitality and Innovation of Industrial Activities ("Industrial Vitality Act").

**(2) Measures including financial support for business transfers**

- 1) Special measures under the Small and Medium-sized Enterprise Credit Insurance Act (separation of general insurance and unsecured insurance)
- 2) Special measures under the Small and Medium-sized Enterprise Investment Business Corporation Act (expansion of coverage)
- 3) Special measures under the Act on Equipment Installation Support for Small Enterprises (raising of limit on loan ratio)
- 4) Facilitation of inheritance of permits and licenses (streamlining of procedures for transfer of permits and licenses at the time of business transfers)



Case 2-2-1

A company which revived performance using the equipment, products and customers of a business it took over

Mikami Seisakusho Co., Ltd. manufactures metal pressed parts and other components in Higashiosaka City, Osaka Prefecture with 12 employees and capital of ¥3 million. In July 2009, Mikami Seisakusho took over the business of another company in the same industry. They heard from one of their suppliers that the business was for sale because of poor performance. The business for sale had a factory 3-4 times larger than their own, with precision processing equipment and facilities. While Mikami Seisakusho was mostly involved in manufacturing and sales centered on the stamping of parts, the target company processed and manufactured parts for medical equipment, office equipment, printers and other precision equipment. Their customers seemed attractive.

This business acquisition took place just after the Lehman crisis and there was some opposition to the deal. Nevertheless, Mikami Seisakusho secured funds for the purchase from a financial institution and decided to go ahead. The acquisition involved unexpected expenses and fixed costs, but Mikami Seisakusho revived performance by reorganizing the employees and successfully winning continued orders for the precision parts that were the acquired company's main product.

## [2] Business reconstruction by SMEs

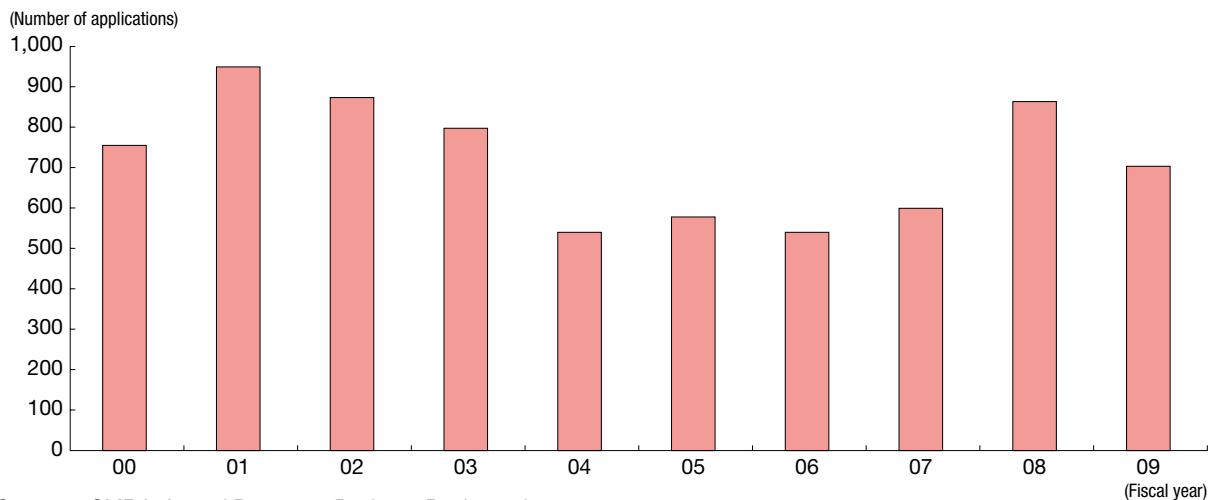
Having described in Subsection 1 the measures being taken to ensure the successful transfer of businesses between SMEs amid the decline in number of SMEs in Japan, we examine in this subsection the actual circumstances and challenges encountered when SMEs that have fallen into difficulties put into practice business

revitalization plans<sup>11)</sup> while negotiating with their creditors to turn themselves around.

Fig. 2-2-30 shows the number of civil rehabilitation applications by SMEs since fiscal 2000, from which it can be seen that a total of more than 7,100 applications were made up to March 2010 as enterprises made active use of business rehabilitation proceedings.

**Fig. 2-2-30 Number of civil rehabilitations applications by SMEs**

Over 7,100 applications were made between the entry into effect of the Civil Rehabilitation Act in 2000 and the end of March 2010, evidencing active use of business rehabilitation procedures.



Source: SMRJ, *Annual Report on Business Bankruptcies*.

### ● Forms of civil rehabilitation

We now survey the forms of action taken by SMEs that applied for civil rehabilitation and the specific details of their rehabilitation plans. Fig. 2-2-31 shows the reasons why SMEs that applied for civil rehabilitation fell into difficulties. According to the *Survey of SME Rehabilitations*<sup>12)</sup>, the commonest reason, cited by 54.5% of respondents, was “decline of core business.” Other

common responses were “past business mistakes” and “overinvestment in non-core business.” In contrast with the preponderance of problems arising from internal factors such as these, some enterprises also cited external factors, such as “financial institution’s reluctance to lend or withdrawal of credit,” “bankruptcy or retrenchment of customer,” and “bankruptcy or retrenchment of parent company.”

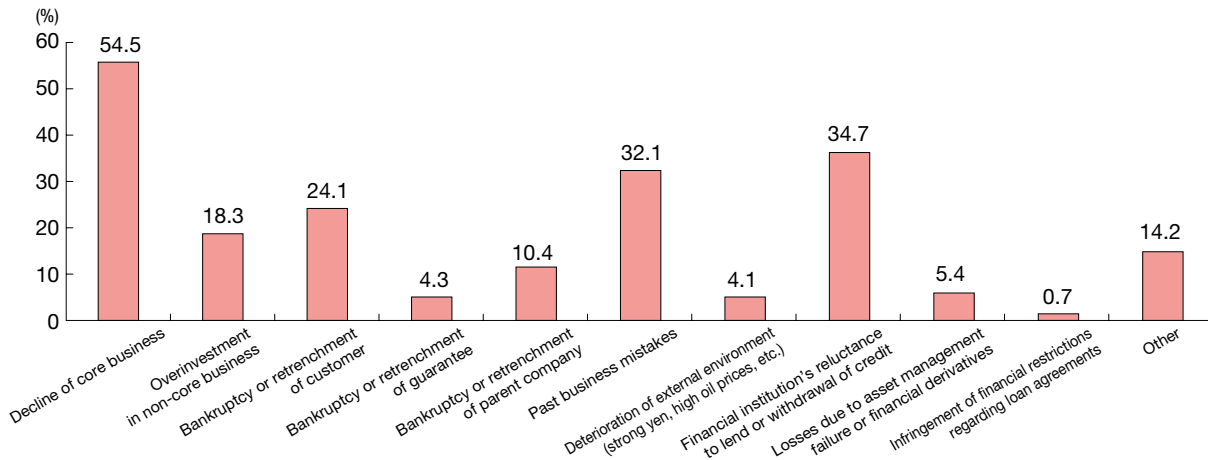
11) The Civil Rehabilitation Act was put into effect in 2000 to provide for the formulation of rehabilitation plans, as consented to by a number of creditors and confirmed by the courts, for debtors in extreme financial difficulties in order to appropriately adjust relations of rights under civil law between such debtors and their creditors with the aim of ensuring the rehabilitation of debtors’ businesses or economic lives. Other arrangements to facilitate business rehabilitations have also been steadily developed, including the formation of SME Revitalization Support Councils and establishment of the Business Rehabilitation ADR System, as well as amendments to the Corporate Reorganization Act and the Bankruptcy Act. However, cases can arise where individuals may be personally bankrupted or be unable to rehabilitate their businesses due to being called upon to fulfill loan guarantees given in the capacity of business proprietor.

12) Commissioned by the SME Agency and conducted by Mitsubishi UFJ Research & Consulting Co., Ltd. in November 2010, this consisted of a questionnaire survey of 3,627 enterprises that had filed applications under the Civil Rehabilitation Act. The response rate was 16.9%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.



**Fig. 2-2-31 SMEs' reasons for falling into difficulties**

"Decline of core business" was cited by approximately 50% of SMEs, and "financial institution's reluctance to lend or withdrawal of credit" and "past business mistakes" were cited by around 30%.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

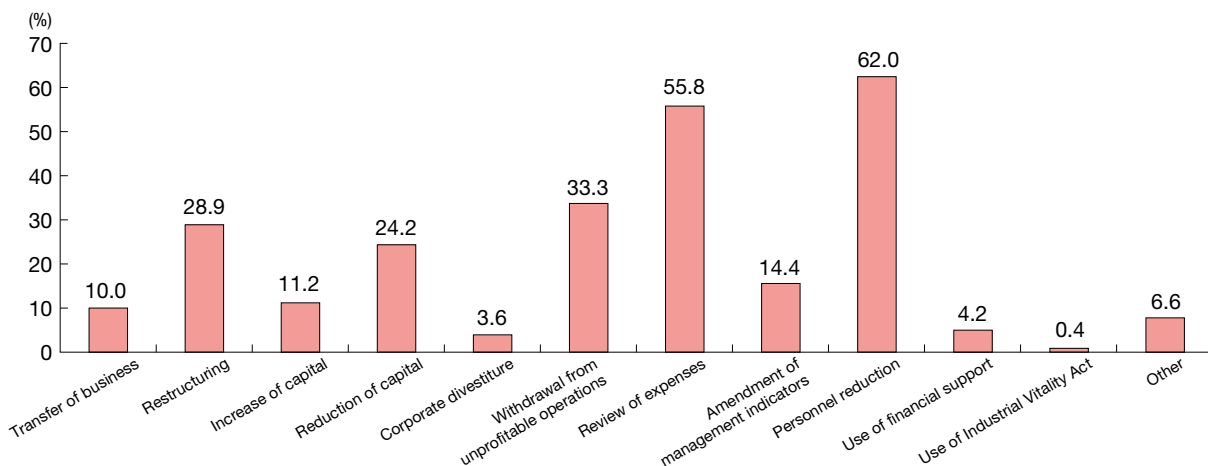
- Notes:
1. Only SMEs that applied for civil rehabilitation are included in the above.
  2. Totals do not necessarily sum to 100 due to multiple responses.

The next question to consider is: What kinds of rehabilitation plans are drawn up by SMEs that have fallen into difficulties? As Fig. 2-2-32 shows, plans tend to revolve around radically overhauling existing operations

and cutting costs, with 62.0% opting for "personnel reductions," 55.8% for "review of expenses," and 33.3% for "withdrawal from unprofitable operations."

**Fig. 2-2-32 Content of rehabilitation plans**

Plans tend to revolve around radically overhauling operations by such means as "personnel reductions," "review of expenses," and "withdrawal from unprofitable business."



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

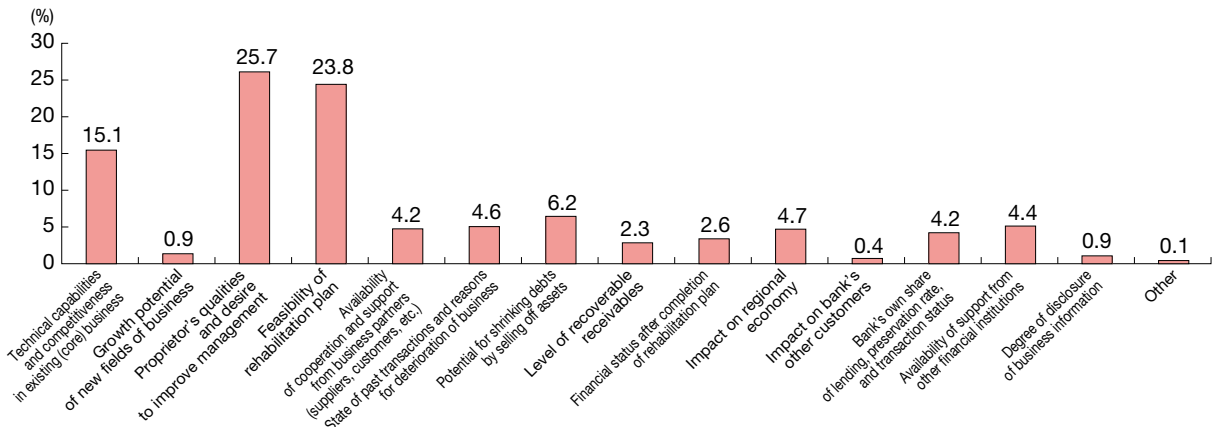
- Notes:
1. Only SMEs that applied for civil rehabilitation are included in the above.
  2. Totals do not necessarily sum to 100 due to multiple responses.

By what criteria do the financial institutions that are such enterprises' creditors decide whether to support their customers' rehabilitation? Fig. 2-2-33 shows the criteria that financial institutions attach most weight to when deciding whether to support SMEs' rehabilitation. From

this, it can be observed that emphasis is placed on "proprietor's qualities and desire to improve management," "feasibility of rehabilitation plan," and "technical capabilities and competitiveness in existing (core) business."

**Fig. 2-2-33 Criteria most emphasized when deciding on rehabilitation support**

High proportions of financial institutions stress "proprietor's qualities and desire to improve management," "feasibility of rehabilitation plan," and "technical capabilities and competitiveness in existing (core) business."

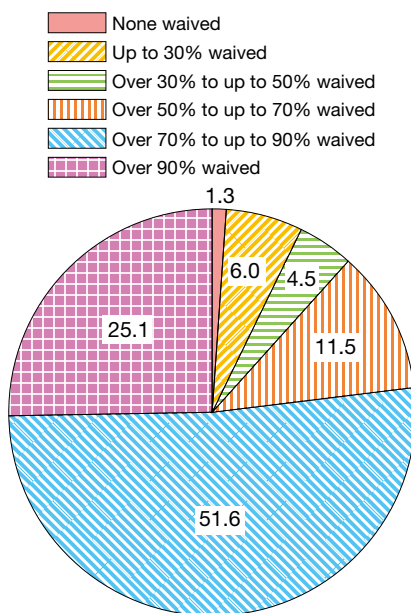


Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for SMEs* (November 2010), commissioned by SME Agency.

Note: The results were calculated by scoring in order of emphasis: 5 points for first, 4 points for second, 3 points for third, 2 points for fourth, and 1 point for fifth.

**Fig. 2-2-34 Content of rehabilitation plans (debt relief)**

76.7% of SMEs had more than 70% of their debts waived.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

Note: Only SMEs that applied for civil rehabilitation are included in the above.

Assuming that the agreement of financial institutions and other creditors has been obtained and an SME has had its business rehabilitation plan approved on the basis of criteria such as these, what forms of support are then actually available to it? From Fig. 2-2-34, it can be seen that 76.7% of enterprises had more than 70% of their debts waived.

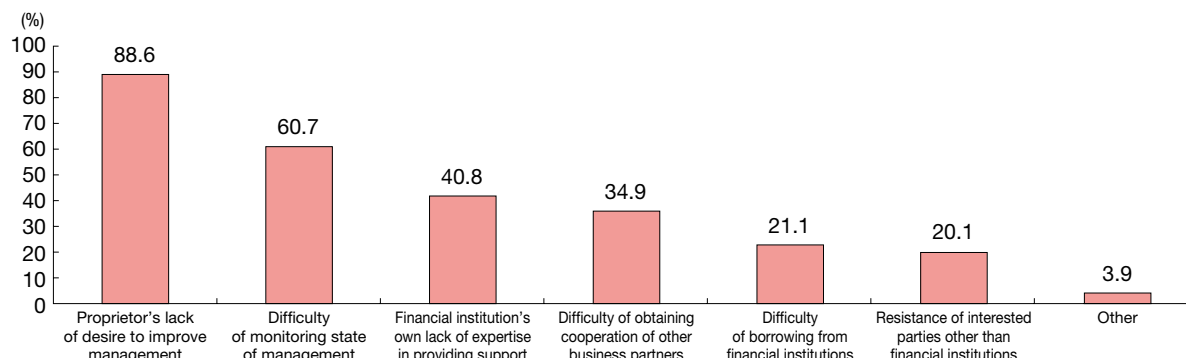
The above demonstrates that enterprises that make use of civil rehabilitation proceedings and obtain the cooperation of financial institutions and other creditors are able to obtain debt relief and other support enabling them to proceed with business rehabilitation.

● **Challenges encountered by SMEs during civil rehabilitation**

Next, we consider the direct challenges faced by SMEs in the process of civil rehabilitation. Fig. 2-2-35 depicts the impediments to financial institutions' continuation of support once they have commenced assisting rehabilitation. The commonest problem is "proprietor's lack of desire to improve management," followed by "difficulty of monitoring state of management."

**Fig. 2-2-35 Obstacles to continuation of rehabilitation support after commencement**

The commonest problem is “proprietor’s lack of desire to improve management,” followed by “difficulty of monitoring state of management.”



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for SMEs* (November 2010), commissioned by SME Agency.

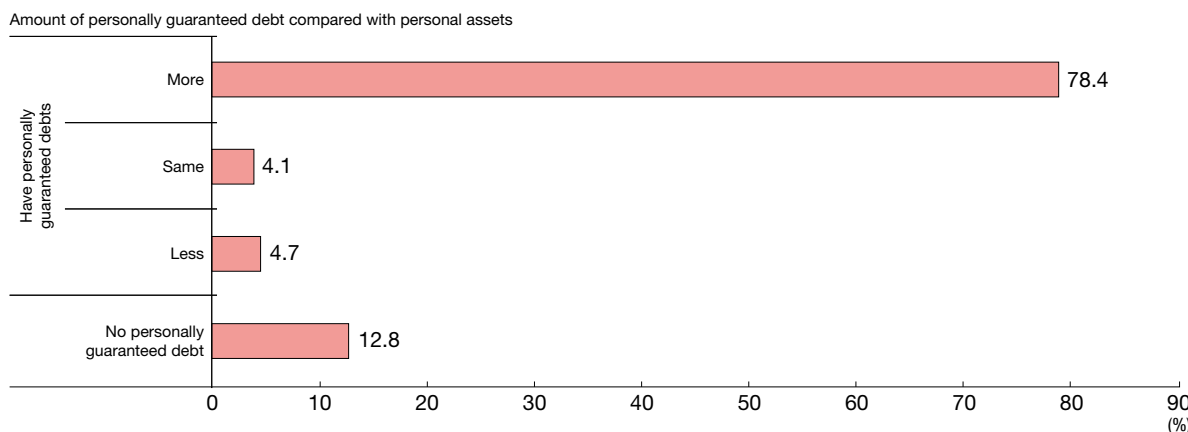
Note: Totals do not necessarily sum to 100 due to multiple responses.

Observers note that one reason for “proprietor’s lack of desire to improve management” is the impact of personal guarantees that they have given in their capacity as proprietor.<sup>13)</sup> According to Fig. 2-2-36, the

proprietors of around 80% of SMEs that have applied for civil rehabilitation have personally guaranteed debts that exceed their personal assets. They thus approach civil rehabilitation under a heavy burden.

**Fig. 2-2-36 Comparison of amounts of personally guaranteed debt and personal assets**

Around 80% of enterprises said that their guarantees exceeded their personal assets.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

Note: Only SMEs that applied for civil rehabilitation are included in the above.

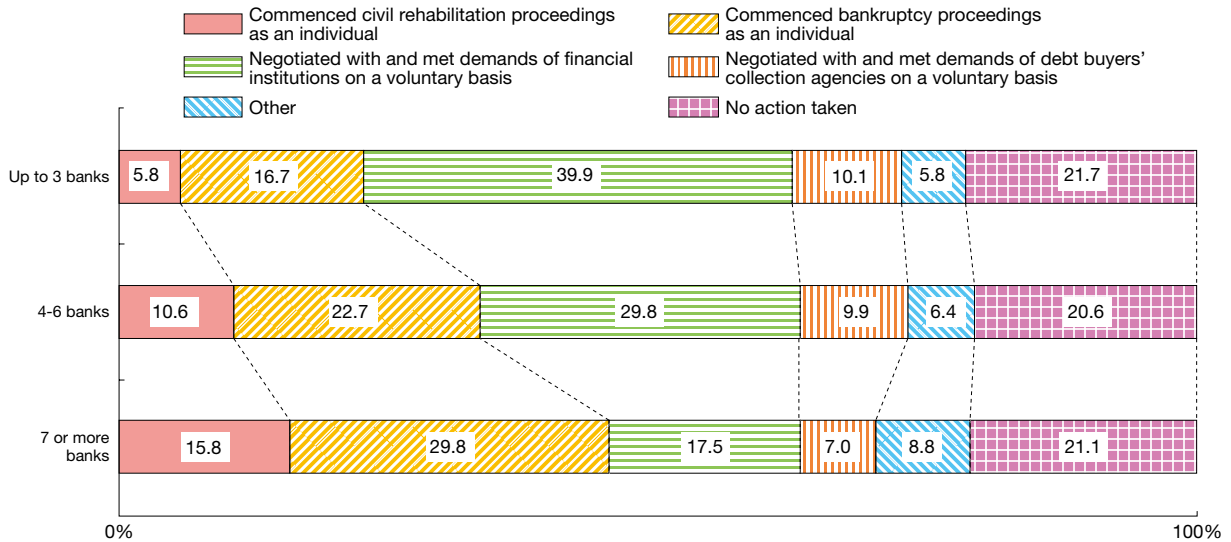
Even though an SME may be able to have its corporate debt waived as a result of initiating civil rehabilitation proceedings, such relief does not extend to personally guaranteed debt. As Fig 2-2-36 showed, the great majority of proprietors are unable to repay such debt relying solely on their personal assets. According to Fig. 2-2-37, negotiating with and meeting the demands of financial

institutions and collection agencies on a voluntary basis becomes more difficult as the number of financial institutions used increases, and high proportions of SMEs say that they have “commenced civil rehabilitation proceedings as an individual” or “commenced bankruptcy proceedings as an individual.”

13) The situation regarding personal guarantees is explained in Column 2-2-1.

**Fig. 2-2-37 State of settlement of personally guaranteed debts by number of banks used**

The proportion of SMEs responding that they have “commenced civil rehabilitation proceedings as an individual” or “commenced bankruptcy proceedings as an individual” increases with the number of financial institutions used.

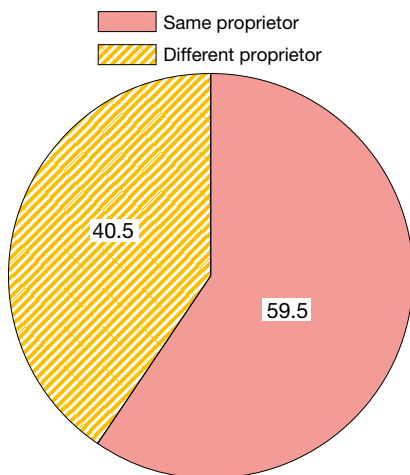


Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

Note: Only SMEs whose proprietors had personally guaranteed loans from financial institutions as of the time of making a civil rehabilitation application are included in the above.

**Fig. 2-2-38 Change of proprietor**

The same proprietor remained at the helm after applying for civil rehabilitation at around 60% of SMEs.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

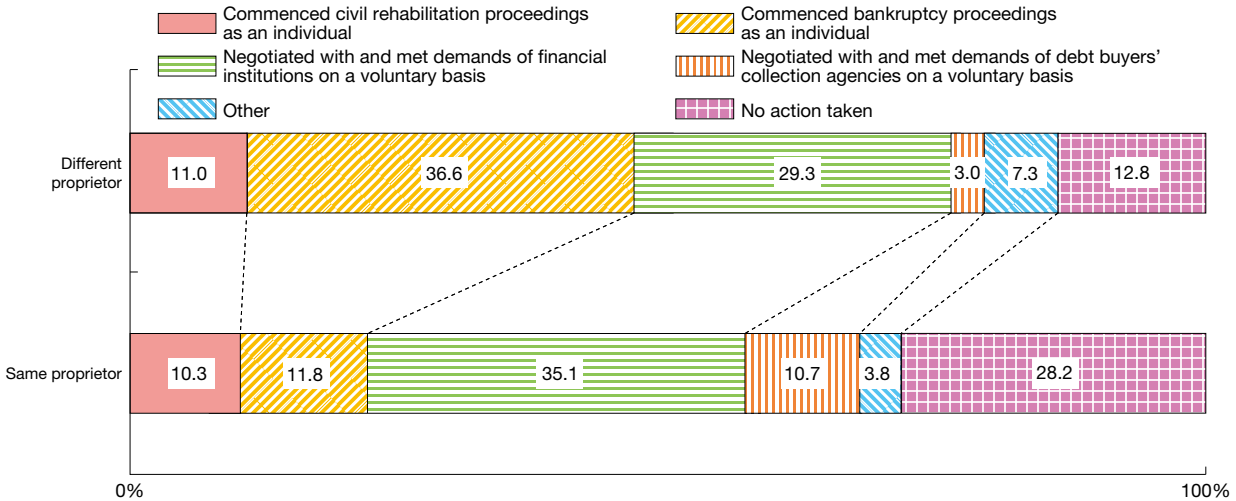
Note: Only SMEs that applied for civil rehabilitation are included in the above.

According to Fig. 2-2-38, the same proprietor remained at the helm after applying for civil rehabilitation at around 60% of SMEs.

Moreover, as Fig. 2-2-39 shows, there appears to be a tendency to avoid personal bankruptcy when the same proprietor remains at the helm of the rehabilitated enterprise because of the risk of damage to the enterprise's reputation. Apart from initiating corporate civil rehabilitation proceedings, the proprietors of SMEs in such situations often negotiate and deal with financial institutions and collection agencies on a voluntary basis, and there are also many cases where they do not deal with guaranteed debt and still have guarantee obligations.

**Fig. 2-2-39 Personally guaranteed debt arrangement proceedings according to change of proprietor**

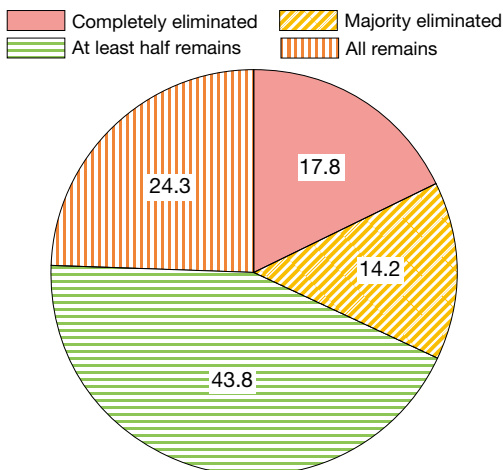
There appears to be a tendency to avoid personal bankruptcy when the same proprietor remains at the helm of the rehabilitated enterprise because of the risk of damage to the enterprise's reputation.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.  
 Note: Only SMEs whose proprietors had personally guaranteed loans from financial institutions as of the time of making a civil rehabilitation application are included in the above.

**Fig. 2-2-40 State of debt relief as a result of voluntary debt adjustment**

Only one in five proprietors responded that their personally guaranteed debt had been "completely eliminated" as a result of voluntary debt adjustment.



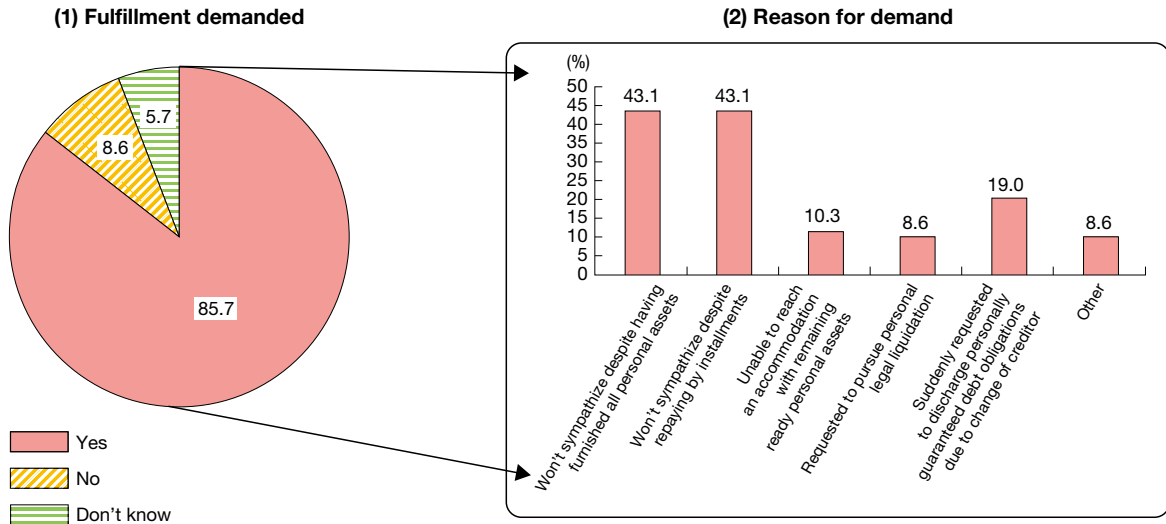
Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.  
 Note: The above includes only SMEs whose proprietors had personally guaranteed loans from financial institutions as of the time of applying for civil rehabilitation and who, in addition to initiating corporate civil rehabilitation proceedings, initiated voluntary adjustment proceedings (negotiating with and meeting demands of financial institutions or collection agencies on a voluntary basis) in order to reduce or eliminate personally guaranteed debt.

If legal liquidation is not pursued on a personal basis, is it still possible to have personally guaranteed debts waived by negotiating with financial institutions and collection agencies on a voluntary basis? As Fig. 2-2-40 shows, only around 20% of proprietors say that their personally guaranteed debts have been "completely eliminated" as a result of voluntary debt adjustment.

Fig. 2-2-41 shows the extent to which SMEs have been requested to pay personally guaranteed debts and the reasons for having been requested to do so among SMEs that were unable to satisfy financial institutions' and collection agencies' claims. From this it can be seen that over 80% of SMEs are still requested to discharge their personally guaranteed debt obligations even where they are unable to satisfy financial institutions' and collection agencies' claims. Two common reasons given by SMEs for still being required to discharge guarantee obligations despite negotiating on a voluntary basis with financial institutions and collection agencies are "won't sympathize despite having furnished all personal assets" and "won't sympathize despite repaying by installments." These are each cited by approximately 40% of SMEs, providing evidence of the difficulties that they encounter in having personally guaranteed debts waived despite repaying guaranteed debts to the maximum extent possible.

**Fig. 2-2-41 Fulfillment of personal guarantees**

Over 80% of SMEs' proprietors are still requested to fulfill personal guarantees when their enterprises cannot satisfy financial institutions' and collection agencies' claims. The main reasons for this are "won't sympathize despite having furnished all personal assets" and "won't sympathize despite repaying by installments," each cited by 40% of respondents.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

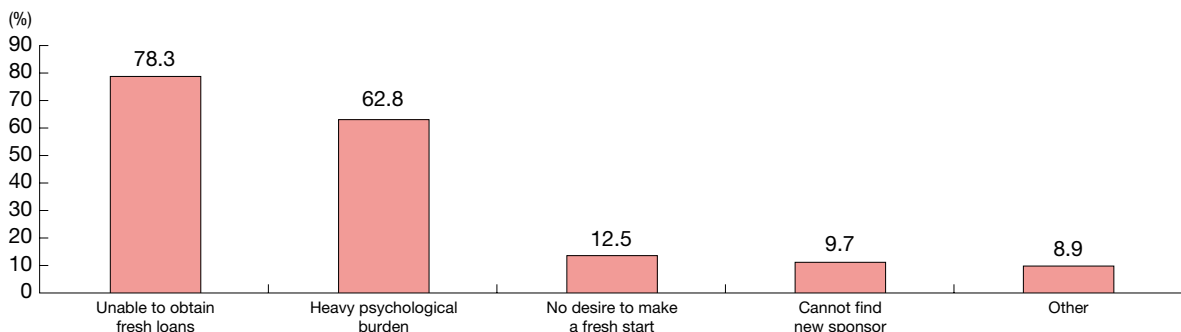
- Notes:
1. Only SMEs that applied for civil rehabilitation and could not satisfy financial institutions' and collection agencies' claims are included in the above.
  2. Figures for (2) "Reason for demand" include only SMEs that were requested to fulfill their personal guarantees.
  3. Totals for (2) "Reason for demand" do not necessarily sum to 100 due to multiple responses.

Fig. 2-2-42 shows the extent of the burden felt by the representatives of SMEs whose financial institutions or collections agencies demanded that they discharge their remaining guarantee obligations, and it may be observed

from this that high proportions of enterprises answer "unable to obtain fresh loans" and "heavy psychological burden."

**Fig. 2-2-42 Burden of claims for fulfillment of guarantees**

High proportions of enterprises respond "unable to obtain fresh loans" and "heavy psychological burden."



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

- Notes:
1. Only SMEs whose proprietors had personally guaranteed loans from financial institutions as of the time of making a civil rehabilitation application are included in the above.
  2. Totals do not necessarily sum to 100 due to multiple responses.

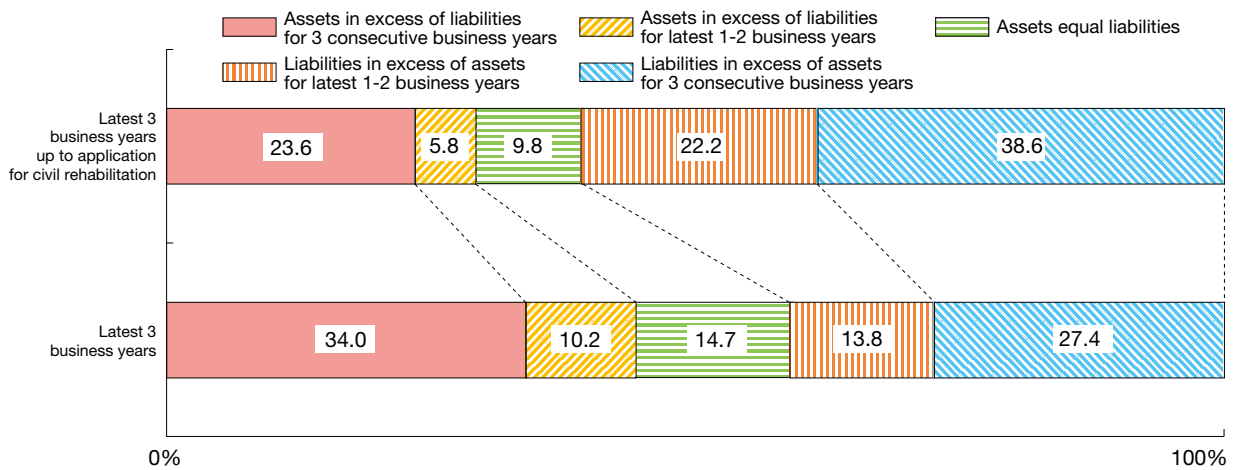
● **Effects of civil rehabilitation**

Figs. 2-2-43 and 2-2-44 show comparisons of the balance sheets and profit and loss statements of SMEs that pursued civil rehabilitation in the three business years before applying to do so and their latest three business years. The proportion of enterprises with liabilities in excess of assets declines from 60.8% in the latest three

business years before application to 41.2% in the latest three business years, and the proportion of profit-making enterprises increases from 26.8% to 48.4%. These figures indicate that, on the whole, enterprises experience an improvement in performance as a result of going through the process of civil rehabilitation.

**Fig. 2-2-43 Balance sheets**

The proportion of enterprises with liabilities in excess of assets decreases from 60.8% in the latest 3 business years before application to 41.2% in the latest 3 business years.

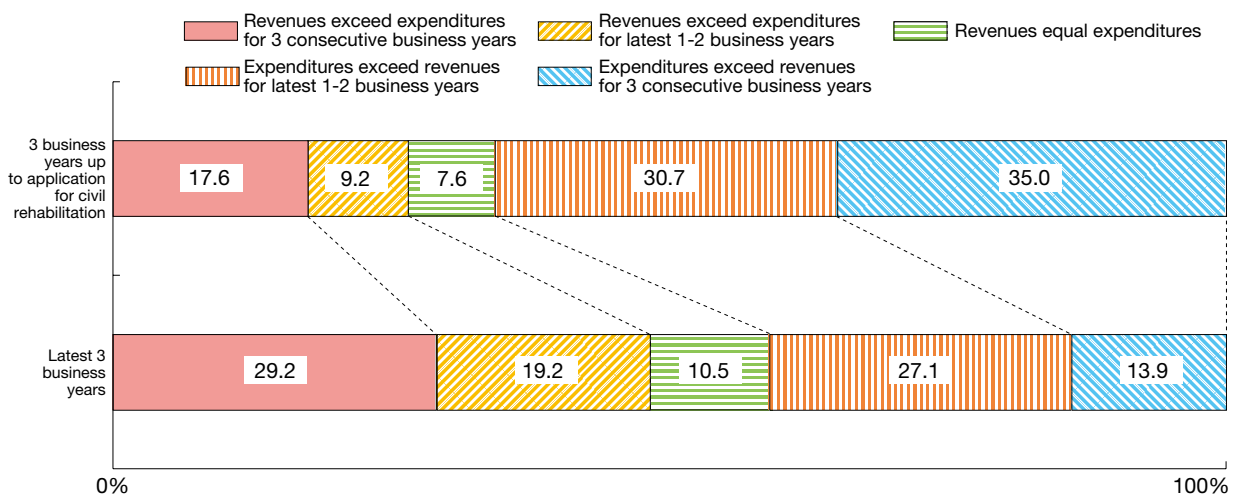


Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

Note: Only SMEs that applied for civil rehabilitation are included in the above.

**Fig. 2-2-44 Profit and loss statements**

The proportion of profit-making enterprises also rises from 26.8% in the latest 3 business years before application to 48.4% in the latest 3 business years.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

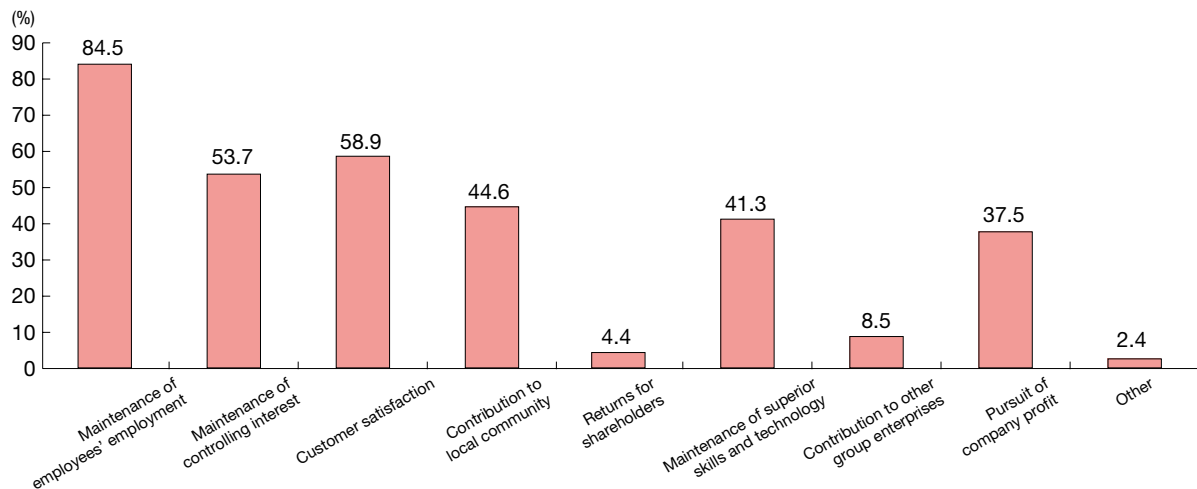
Note: Only SMEs that applied for civil rehabilitation are included in the above.

Above we have seen that SMEs have managed to remain in business as a result of slashing costs and obtaining various forms of support, such as debt relief and deferment of repayment by financial institutions, thereby improving their business performance. Below, therefore, we look at what SMEs have been able to achieve as a result of thus being able to remain in business as a

result of civil rehabilitation. Fig. 2-2-45 shows that the commonest outcome, cited by 84.5% of the respondents, is "maintenance of employees' employment." This is followed by "customer satisfaction," "maintenance of controlling interest," and "contribution to local community."

**Fig. 2-2-45 Outcomes of civil rehabilitation**

The commonest outcome, cited by 84.5% of the respondents, is "maintenance of employees' employment," followed by "customer satisfaction," "maintenance of controlling interest," and "contribution to local community."



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of SME Rehabilitations* (November 2010), commissioned by SME Agency.

- Notes:
1. Only SMEs that applied for civil rehabilitation are included in the above.
  2. Totals do not necessarily sum to 100 due to multiple responses.

Above, we analyzed how SMEs went about civil rehabilitation, the challenges that they encountered along the way, and the effects that it had. We have seen that while some SMEs manage to restore their performance by making effective use of the civil rehabilitation system and implementing restructuring plans, there are also

cases in which proprietors and SMEs in the process of rehabilitation remain under a heavy burden due to having to discharge their personal guarantee obligations (provided in their capacity as proprietors) or still having personally-guaranteed debt even after discharging their obligations.

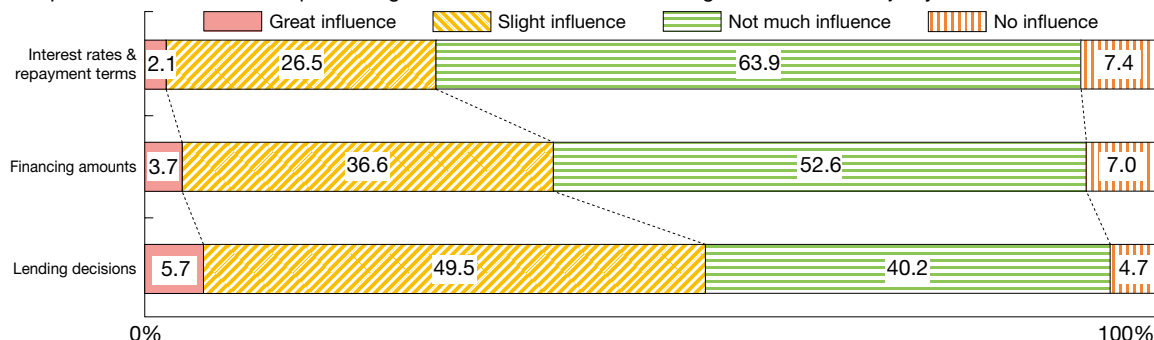


### Column 2-2-1 Personal guarantees in SME financing

Personal guarantees play a large role in SME financing.<sup>14)</sup> According to Column Figure 2-2-1 (1), the presence or absence of a personal guarantee influences SME financing decisions at a majority of financial institutions. It also influences financing amounts as well as interest rates and repayment terms at many financial institutions. The figure confirms that personal guarantees have a large impact on financial institution loan screening.

**Column Fig. 2-2-1(1) Differences in lending stance with and without a personal guarantee**

The presence or absence of a personal guarantee influences SME lending decisions at a majority of financial institutions

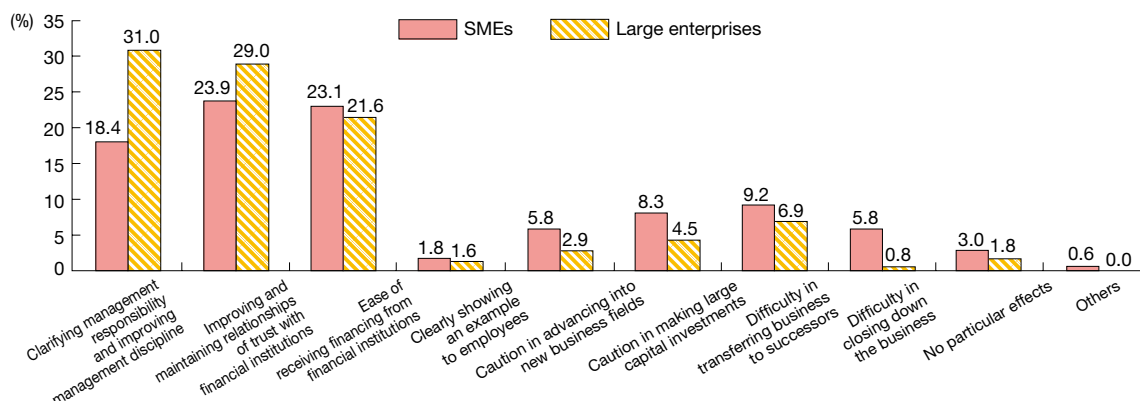


Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for SMEs* (November 2010), commissioned by SME Agency.

Column Figure 2-2-1 (2) shows that both large enterprises and SMEs view the effects of personal guarantee obligations positively in terms of "clarifying management responsibility and improving management discipline," "improving and maintaining relationships of trust with financial institutions," and "ease of receiving financing from financial institutions." On the other hand, compared with large enterprises, a greater number of SMEs responded that personal guarantee obligations lead to "difficulty in transferring business to successors," "caution in making large capital investments," "caution in advancing into new business fields" and "difficulty in closing down the business."

**Column Fig. 2-2-1 (2) Effects of personal guarantee obligations**

Many large enterprises and SMEs responded that personal guarantees help in "clarifying management responsibility and improving management discipline," "improving and maintaining relationships of trust with financial institutions," and "ease of receiving financing from financial institutions," but a greater number of SMEs responded that personal guarantees lead to "difficulty in transferring business to successors," "caution in making large capital investments," "caution in advancing into new business fields" and "difficulty in closing down the business."



Source: SME Agency, *Survey of the Management Environment* (November 2010).

Notes: 1. Only SMEs which took loans with personal guarantee obligations by the corporate representative in or after April 2005 are included in the above.  
2. The results were calculated by scoring in order of ranking: 3 points for first, 2 points for second, and 1 point for third.

14) When giving financing to SMEs, financial institutions often request a personal guarantee. In the past, guarantors sometimes bore indefinite unlimited joint and several liability under blanket guarantee contracts. This tended to place an excessive burden on guarantors. The Act for Partial Revision of the Civil Code which came into effect in April 2005 establishes more reasonable guarantee contracts by making oral agreements invalid, mandating that contracts must stipulate maximum guarantee amounts, and limiting guarantee obligations to within five years (within three years when no period is specified).

### Case 2-2-2

### A company which applied for civil rehabilitation proceedings, developed original products, and recovered

Altan Co., Ltd. manufactures ethanol disinfectants, mould-release sprays, food additives and other products in Ota City, Tokyo with 20 employees and capital of ¥20 million.

Altan has been engaged in the research, development and sales of commercial sanitation products for the food products industry ever since the company began selling disinfectant sprays in 1981, and posted sales of ¥1.3 billion in fiscal 1998. However, sales declined to ¥1.0 billion in fiscal 2002 because of the emergence of a competitor. Altan fell into cash-flow difficulties, and applied for civil rehabilitation proceedings in January 2003.

Altan's civil rehabilitation plan was approved in September 2003. The former representative director resigned. The company could not repay its loan obligations and was forced into legal restructuring. While employee salaries were not reduced, expenses were cut by relocating the headquarters and taking other measure so that Altan could realize a profit, even under lower sales. With this leaner structure and hard work, Altan completed its civil rehabilitation procedures in September 2007.

Altan was facing the possibility of weak sales in its mainline alcohol disinfectant products because of the prolonged slump in the food products industry which is the market for those products. To build up a sound management foundation after restructuring, the company had to apply its accumulated technology, information and networks to develop new products and launch new business. So Altan initiated joint research with Hiroshima University from April 2006. They developed the disinfectant *Altan Noro Ace* which contains persimmon tannin, and applied for a patent in June 2007. This product attracted a great deal of attention including media coverage just before it was released and gained a good reputation because persimmon tannin is effective for the disinfecting of norovirus, influenza, and multiple drug resistant bacteria.



Disinfectant product

Other new Altan products have also gained a good reputation. These include dishwasher detergent with added electrolytic alkaline water, food additives, and neutral detergent mostly made from nonionic surfactant. Further business development is expected.

### Case 2-2-3

### A financial institution providing early support to troubled SMEs

Aomori Bank, Ltd. is a financial institution based in Aomori City, Aomori Prefecture which positively provides early support to troubled SMEs

This early support is mostly given to large-loan customers that use Aomori Bank as their main bank and need help. Aomori Bank's loan officers, as well as the bank's directors and senior managers, hold consultations with these customers in an effort to grasp the current conditions at their SMEs. Aomori Bank is also making every effort together with consultants, accountants, tax accountants and other outside experts to discover the issues facing customer SMEs and make proposals that fully consider the specific business contents.

Some client companies purchase from comparatively expensive suppliers under long-established local trading relations, and incur unnecessary expenses from old ties. Aomori Bank gives advice to SME company managers on changing suppliers, introducing competitive bidding, and conducting zero-base expense reviews to improve profits.

At companies where the internal organizational structure no longer serves its purpose, and which have difficulty making decisions, Aomori Bank advisors attend internal meetings and promote reforms in management perspectives. With the understanding that "it is important for the companies themselves to recognize the need for management improvements and for the managers themselves to take action," Aomori Bank plans to continue advancing early SME support in close coordination with customer company managers.

### [3] Community-based finance

The preceding two subsections examined business transfers and rehabilitations among SMEs. SMEs that are heavily reliant on indirect finance have to develop good relations with financial institutions not only for the purpose of such rehabilitation, however, but also to procure stable sources of financing. Given weak demand for funds, financial institutions too need to clearly identify SMEs' needs and strengthen their lending functions.<sup>15)</sup>

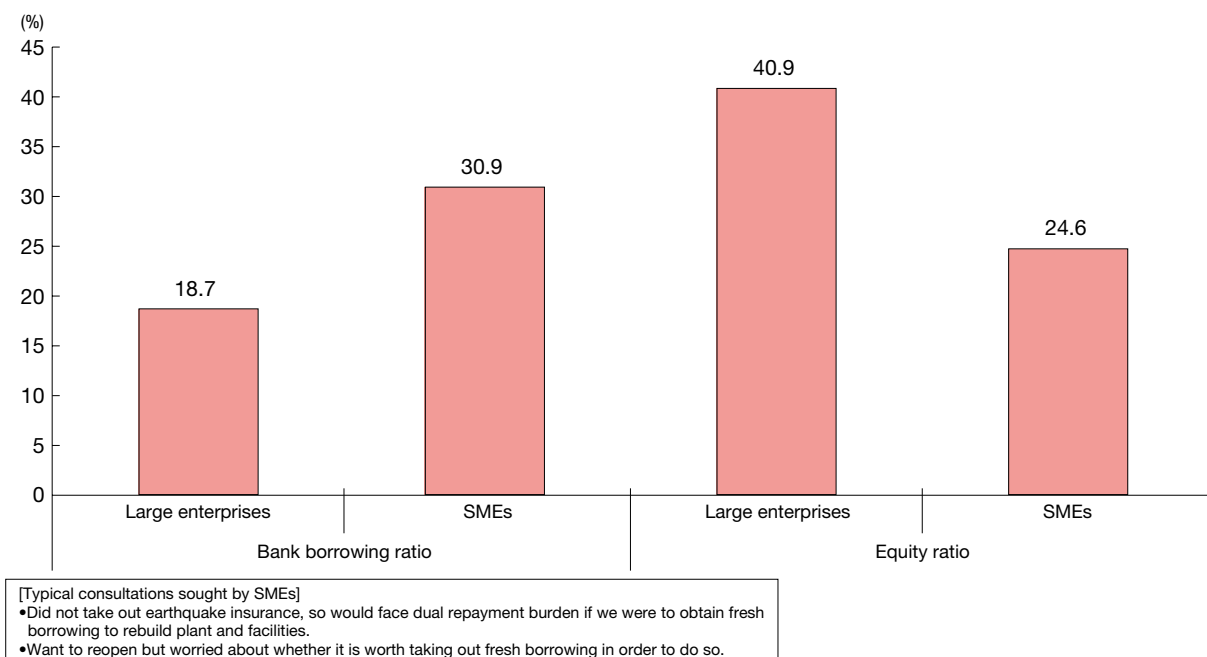
In this section, the focus of our analysis is on SMEs' relations with their main banks, the consulting functions sought by SMEs from financial institutions, and the consulting services that financial institutions want to provide to SMEs.

#### ● SMEs' relations with their main banks

As Fig. 2-2-46 shows, higher proportions of SMEs than large enterprises have low equity ratios and are dependent on indirect finance. In the wake of the earthquake, SMEs consulted financial institutions about a range of issues, primarily concerning their financial position, and financial institutions diligently supported SMEs' recovery by, for example, accommodating their requests for modification of existing borrowing.<sup>16)</sup> Some of these consultations have concerned the problem of "double loans," which arise when a borrower is faced with making two sets of repayments due to having to take out an additional loan to repair buildings or facilities. The exact nature of this problem varies according to an enterprise's individual circumstances, such as whether it intends to recommence doing business or close down. Support must therefore be appropriately tailored to meet their specific circumstances.

**Fig. 2-2-46 Funding mix**

Higher proportions of SMEs than large enterprises have low equity ratios and are dependent on indirect finance. In the wake of the earthquake, SMEs consulted financial institutions about a range of issues, primarily concerning their financial position.



Source: MOF, 2009 Financial Statements Statistics of Corporations by Industry, Annually.

- Notes:
1. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of less than ¥100 million.
  2. Bank borrowing ratio = short & long-term borrowing from financial institutions / total assets
  3. Equity ratio = equity capital / total assets

15) See Appended Notes 2-2-3, 2-2-4, and 2-2-5.

16) See Case 2-2-4.

## Case 2-2-4

### A financial institution that earnestly collected information and is supporting the recovery of SMEs

Miyako Shinkin Bank is a shinkin bank (a cooperative regional financial institution for SMEs and local residents) based in Miyako City, Iwate Prefecture with nine branches near the Pacific coast in Miyako City, Kamaishi City and Yamada Town. Seven of the bank's branches (including its headquarters) suffered flooding, destruction and other damages in the earthquake and tsunami disaster. Miyako Shinkin Bank was forced to suspend operations, but quickly resumed partial services following repeated consultations with administrative authorities, using space outside some branches and in municipal offices.

Miyako Shinkin Bank earnestly collected information in person. Branch managers and staff visited customers at evacuation centers, held consultations, and confirmed the damage conditions. When branches reopened, the bank assigned large numbers of workers with experience working at branches after disasters, and responded flexibly to requests from SMEs that had lost passbooks, seals, cash cards and other documents in the disaster.

SMEs are consulting with the bank about various issues, especially cash flow. Miyako Shinkin Bank is setting aside principle and interest payments on existing loans to SMEs that want and will be ready to resume operations.

The bank is also providing preferential terms, such as extended grace periods, on new financing to SMEs which lost or suffered damages to factories, facilities, inventory and other assets in the disaster, to ensure that the repayment burden will not be excessive.

President Hiroshi Saito explains. "The revival of local SMEs is a great duty placed on shinkin banks. There are many SMEs that cannot find direction because they have not confirmed their own damages or those of their customers, but some SMEs are already eager to work hard at recovery, and we will do everything we can to assist them."

Relations between SMEs and financial institutions are important for all kinds of purposes, and not just for post-quake reconstruction. In Japan, financial institutions known as "main banks"<sup>17)</sup> have developed solid, long-term relations with business borrowers, enabling them to accumulate knowledge of their customers through frequent contact that has reduced the asymmetries of information between lenders and borrowers. Below, we examine the relations that have developed between main banks and

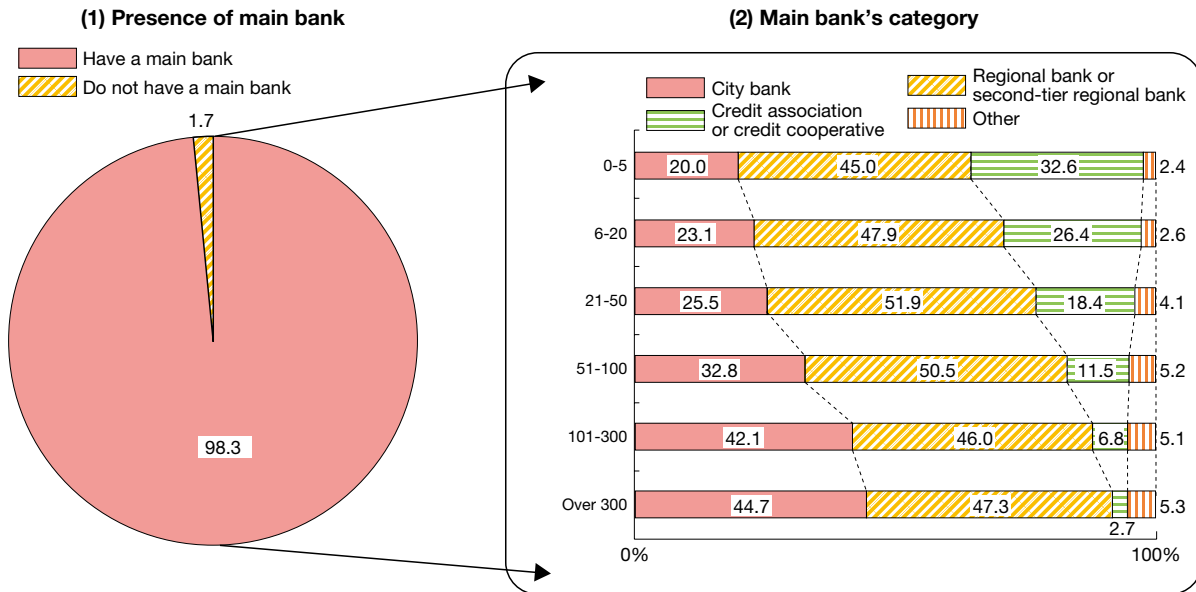
SMEs, and the extent of SMEs' satisfaction concerning their relations with their main banks.

We begin by looking at the proportion of SMEs that have a main bank. As Fig. 2-2-47 shows, almost all SMEs have such a bank. For a small enterprise, a regional financial institution is regarded as its main bank, while the proportion of enterprises considering their main bank to be a city bank or equivalent rises with size.

17) "Main bank" is here defined as the financial institution that an enterprise considers to be its main bank, regardless of what proportion of outstanding borrowing is derived from that institution.

**Fig. 2-2-47 Main bank**

Almost all SMEs have a main bank. For a small enterprise, a regional financial institution is regarded as its main bank.



Source: SME Agency, *Survey of the Management Environment* (November 2010).

- Notes: 1. Only SMEs are included in the above.  
 2. "Main bank's category" includes only SMEs that have a main bank.

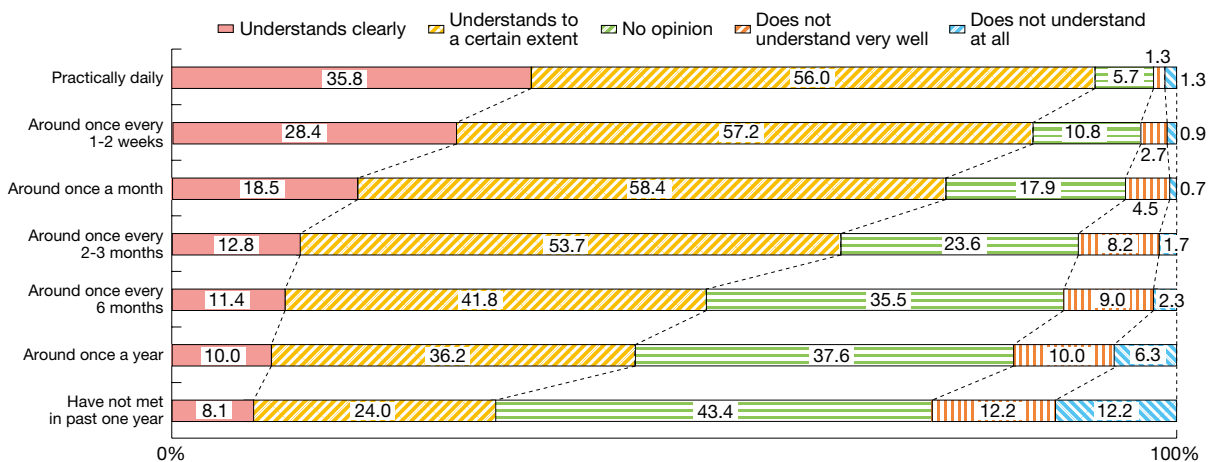
Let us next examine the relationship between information exchanges and financial institutions' understanding of SMEs.

Fig. 2-2-48 shows how SMEs regard their main bank's understanding of their own strengths by frequency of

contact. This demonstrates that the proportion of SMEs considering that their main bank "understands clearly" their own strengths increases with frequency of contact with a financial institution's sales representatives.

**Fig. 2-2-48 SMEs' perceptions of main banks' understanding of their strengths by frequency of contact**

The greater the level of contact with institutions' sales representatives is, the more SMEs tend to feel that their main banks understand their strengths.



Source: SME Agency, *Survey of the Management Environment* (November 2010).

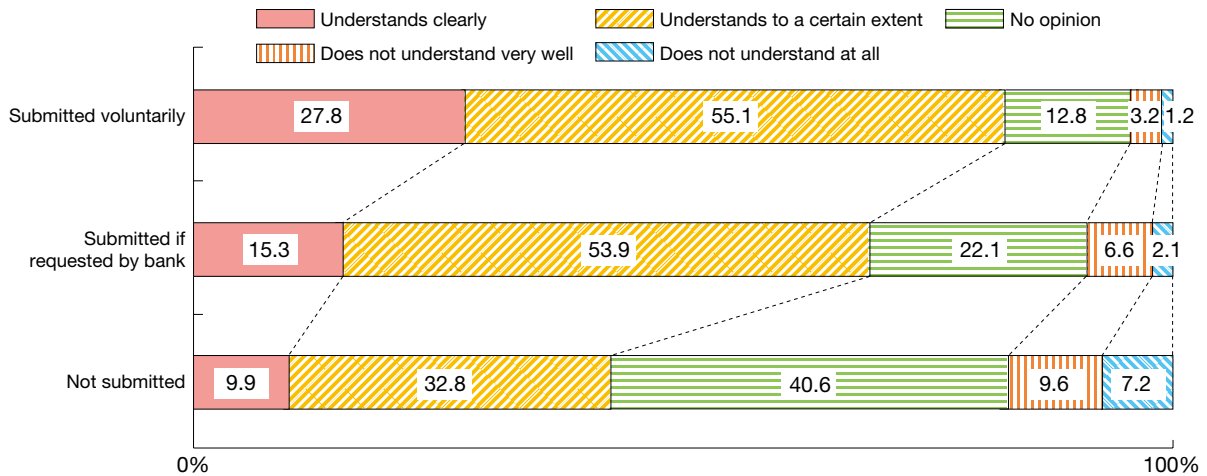
Note: Only SMEs that have a main bank are included in the above.

Fig. 2-2-49 shows SMEs' perceptions of main banks' understanding of them according to their submission of materials. Financial institutions' understanding was also felt to be high among SMEs that actively

submitted materials, with approximately 70% of SMEs that voluntarily did so responding that their main bank understand their strengths.

**Fig. 2-2-49 SMEs' perceptions of main banks' understanding of their strengths by state of submission of materials**

SMEs that actively submit materials tend to feel that their main banks understand their strengths.



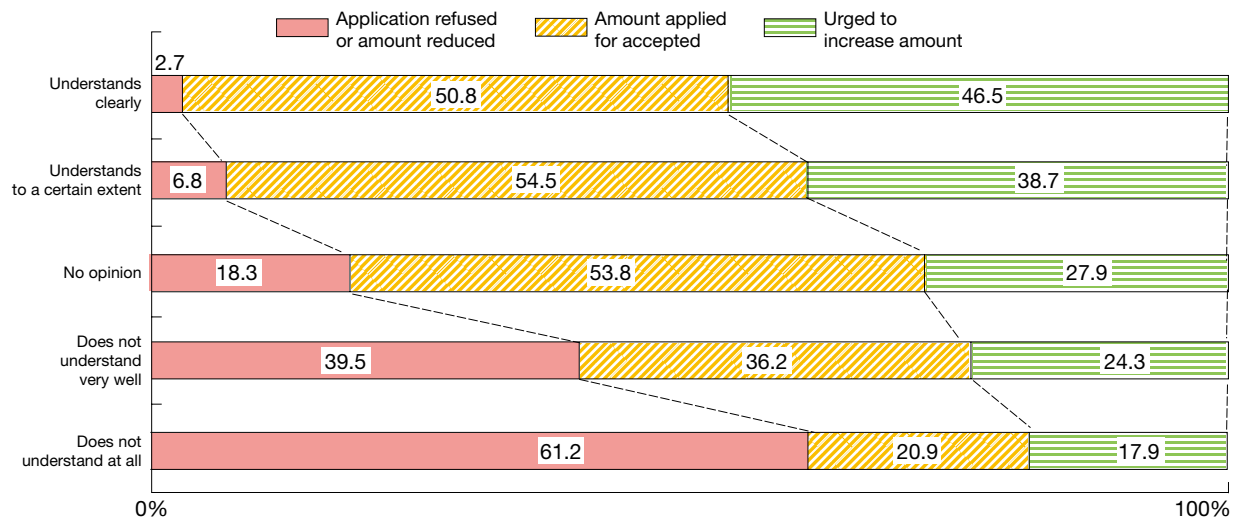
Source: SME Agency, *Survey of the Management Environment* (November 2010).  
 Note: Only SMEs that have a main bank are included in the above.

Looking next at main bank responses when applying for a loan, we find that high proportions of enterprises whose main banks understand their strengths found that their main banks suggested increasing borrowing or

accepted the amount applied for, indicating that financial institutions too find it easier to lend to SMEs that they understand well (Fig. 2-2-50).

**Fig. 2-2-50 Common responses by main banks to applications for loans (as perceived by SMEs)**

A majority of SMEs that said that their main banks understood them clearly have been urged to expand their borrowing.



Source: SME Agency, *Survey of the Management Environment* (November 2010).  
 Note: Only SMEs that have a main bank are included in the above.

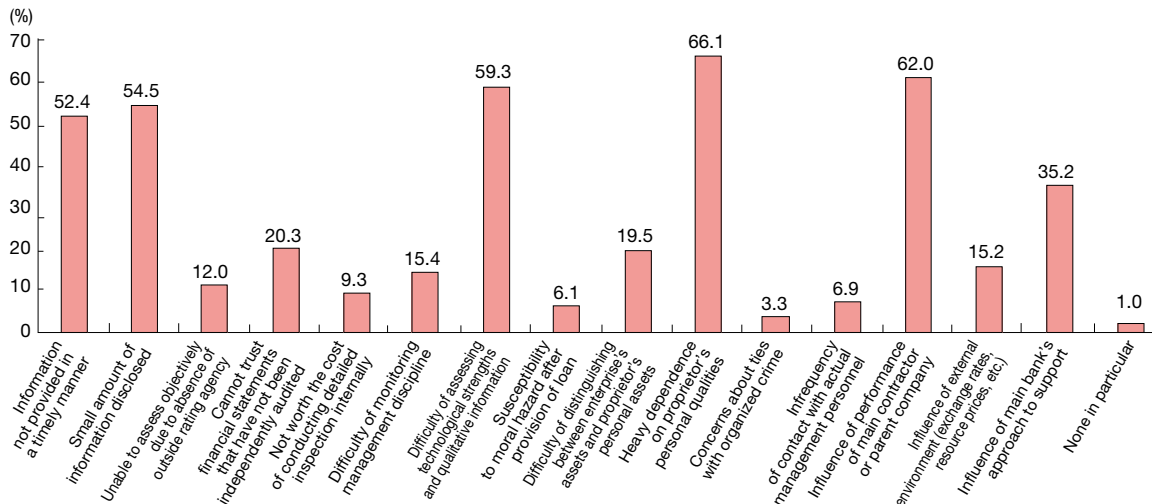
So far, it has been shown that SMEs that feel that their banks understand them have frequent contact with financial institutions' sales representatives and disclose information on themselves (such as by submitting materials), and that a high proportion obtain bigger loans from their main banks than they had applied for. For financial institutions, understanding SMEs strengths makes it easier to extend lending to them. However, this is not in itself necessarily sufficient to ensure lending. Let us consider what are considered to be problems when financial institutions assess SMEs' credit risk.

From Fig. 2-2-51, it can be seen that a variety of factors

are considered to present problems. These fall into three main groups: factors that make it difficult to assess SMEs and that are not apparent in SMEs' financial indicators, such as "heavy dependence on proprietor's personal qualities" and "difficulty of assessing technological strengths and qualitative information"; factors that are suggestive of the instability of an enterprise's business, such as "influence of performance of main contractor or parent company" and "influence of main bank's approach to support"; and a quantitative shortage of information itself, such as "small amount of information disclosed" and "information not provided in a timely manner."

**Fig. 2-2-51 Problems when assessing SMEs' credit risk**

A variety of factors present problems: factors that make it difficult to assess SMEs and that are not apparent in SMEs' financial indicators, such as "heavy dependence on proprietor's personal qualities" and "difficulty of assessing technological strengths and qualitative information"; factors that are suggestive of the instability of an enterprise's business, such as "influence of performance of main contractor or parent company"; and a quantitative shortage of information itself, such as "information not provided in a timely manner."



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for Small and Medium Enterprises* (November 2010), commissioned by SME Agency.

Note: Totals do not necessarily sum to 100 due to multiple responses.

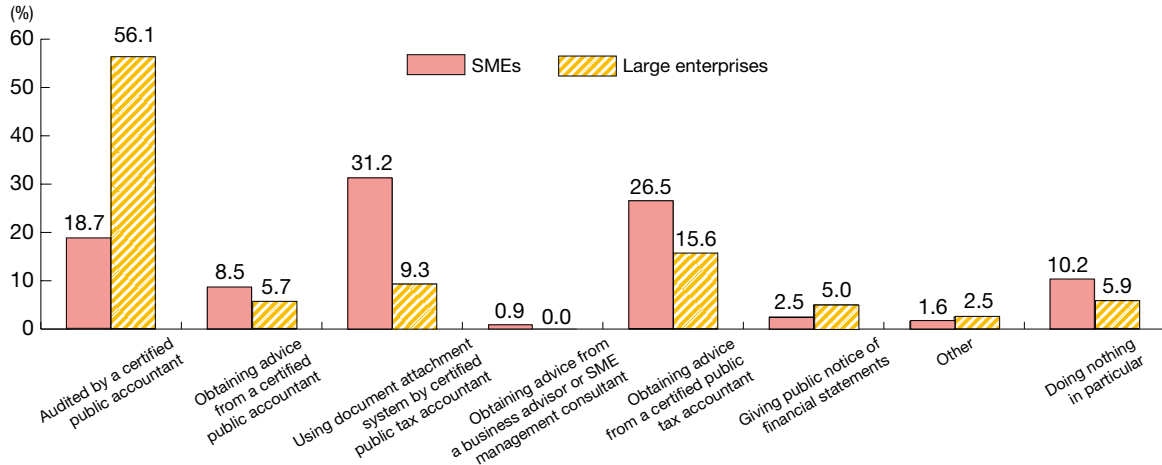
Of the problems identified in Fig. 2-2-51, provision of information to financial institutions is one that can be ameliorated to an extent through SMEs' own efforts. SMEs that are not required to be independently audited also need to take steps to make their financial statements themselves more reliable.<sup>18)</sup> According to Fig. 2-2-52, approximately 60% of SMEs use certified public tax accountants, either by "using document attachment system by certified public

tax accountant" or by "obtaining advice from certified public tax accountant." At the same time, however, around 10% of SMEs said that they are "doing nothing in particular." As Fig. 2-2-49 illustrated, SMEs themselves need to take an active approach to providing information in order to ensure that their own strengths are properly understood by financial institutions.

18) See Appended Note 2-2-6 regarding the state of preparation of financial statements in accordance with recommended SME accounting practices.

**Fig. 2-2-52 Steps taken to increase reliability of financial statements**

While approximately 60% of SMEs make some kind of use of certified public tax accountants, either by “using document attachment system by certified public tax accountant” or “obtaining advice from certified public tax accountant,” around 10% said that they are “doing nothing in particular.”



Source: SME Agency, *Survey of the Management Environment* (November 2010).

On this subject, it may be noted that a report of the “Discussion about accounting standards for unlisted companies,” held by private-sector groups such as the Accounting Standards Board of Japan, was published in August 2010, and a report of the SME Agency’s Small Business Accounting Study Group was also published in September 2010, which recommended that new accounting rules should be drawn up for SMEs.

In February 2011, the Small and Medium Enterprise Accounting Study Team was established. Consisting mainly of those working in and with the SME sector, this commission is considering new accounting rules for SMEs and methods of ensuring their widespread adoption, and its findings are to be published around the summer of 2011.

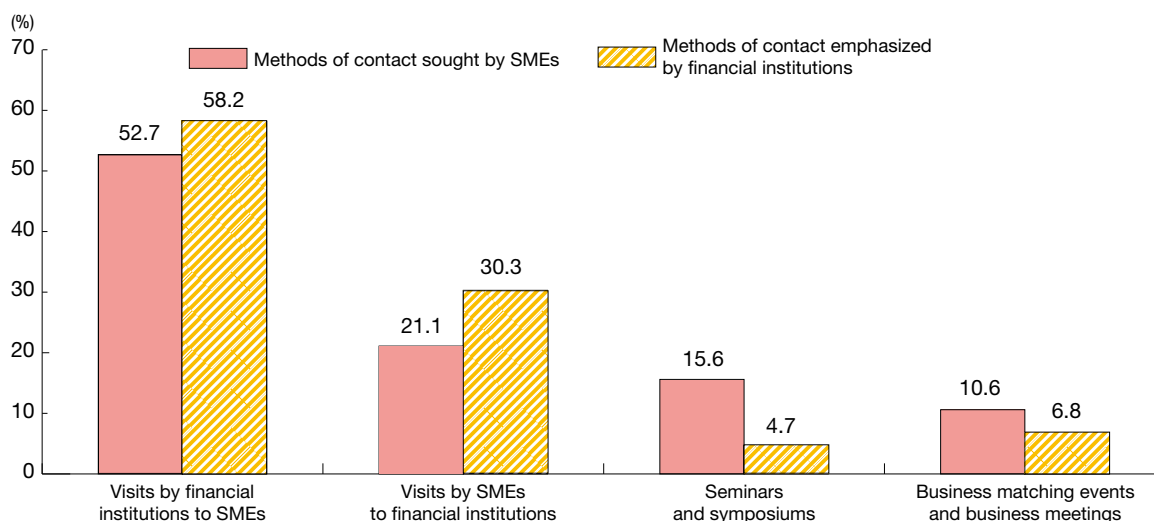
#### ● Consulting functions sought by SMEs from financial institutions and consulting functions that financial institutions want to provide to SMEs

Fig. 2-2-53 compares the methods of contact that SMEs want financial institutions to use and the methods of contact with SMEs that financial institutions emphasize. “Visits by financial institutions to SMEs” and “visits by SMEs to financial institutions” were cited by high proportions in both groups, suggesting that they both seek to develop close, face-to-face relations.



**Fig. 2-2-53 Methods of contact between financial institutions and SMEs**

High proportions of both financial institutions and SMEs seek contact through “visits by financial institutions to SMEs” and “visits by SMEs to financial institutions.”



Sources: SME Agency, *Survey of the Management Environment* (November 2010); Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for SMEs* (November 2010), commissioned by SME Agency.

Note: The results were calculated by scoring in order of ranking: 5 points for first, 4 points for second, 3 points for third, 2 points for fourth, and 1 point for fifth.

With the bulk of measures required by SMEs shifting to business support and outstanding lending to SMEs shrinking, it is hoped that financial institutions' assistance of SMEs on the business front will lead to a further enhancement of financial institutions' lending functions (Fig. 2-2-20). For its part, the Government is promoting community-based finance<sup>19)</sup>, and some regional financial institutions are beginning to make provision of business support for SMEs part of their core business and are making active use of SME support measures<sup>20)</sup>.

Fig. 2-2-54 compares the non-financial subjects of advice sought by SMEs from financial institutions and those emphasized by financial institutions. While the response cited most by SMEs is “advice on entry into new fields,” the commonest response among financial institutions is “advice on development of management

plan.” It thus appears that while financial institutions emphasize support for management planning by SMEs, due in part to the promotion of community-based finance and the support provided under the SME Financing Facilitation Act, SMEs also expect forward-looking support from financial institutions for ventures such as entry into new fields.

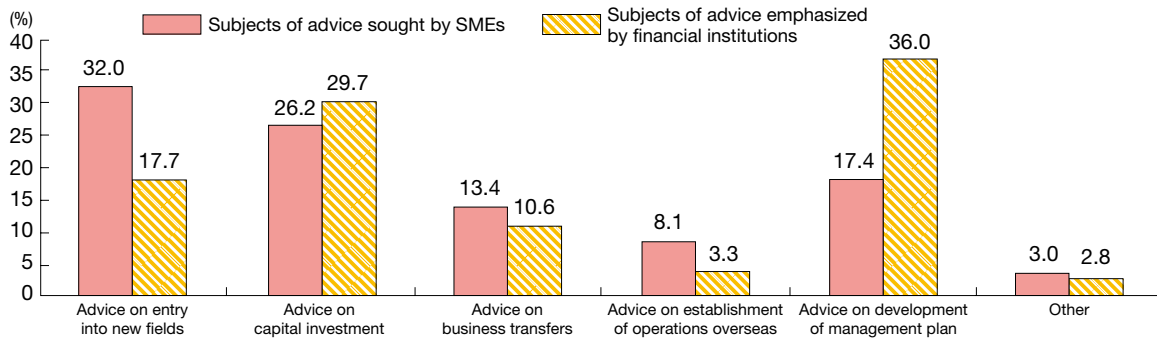
It is hoped that the development of face-to-face relations between SMEs and financial institutions will enable financial institutions to understand the needs of motivated SMEs, such as those seeking to enter fields, leading to the provision of effective business support (such as support for management planning) as well as simply financial support. It is further hoped that this will stimulate demand for funds among local SMEs, leading to the enhancement of financial institutions' lending functions.

19) Regarding the promotion of community-based finance, see Column 2-2-2.

20) For further information on the main points of contact between SME support measures and regional financial institutions, see Column 2-2-3.

**Fig. 2-2-54 Subjects of advice emphasized**

While the response cited most by SMEs is “advice on entry into new fields,” the commonest response among financial institutions is “advice on development of management plan.”



Sources: SME Agency, *Survey of the Management Environment* (November 2010); Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for SMEs* (November 2010), commissioned by SME Agency.

Note: The results were calculated by scoring in order of ranking: 5 points for first, 4 points for second, 3 points for third, 2 points for fourth, and 1 point for fifth.

In this chapter we have provided an overview of financial support, employment support, business transfers, civil rehabilitation, and community-based finance in the SME sector since the Lehman crisis. We have also examined what measures are needed to preserve the virtues of SMEs as the bedrock of industry and communities in the face of the rapid economic downturn and a feared worsening

of structural issues. Such support measures also need to be directed into assisting post-quake reconstruction and future economic growth. In Part III, we analyze the actions that are needed in the SME sector to achieve economic growth, and the situation regarding startups, changes of business, improvements in labor productivity, and the taking advantage of business opportunities overseas.

**Case 2-2-5**

**A financial institution matching businesses to directly expand SME sales channels**

Osaka City Shinkin Bank is a financial institution in Osaka City, Osaka Prefecture which is matching businesses to directly expand SME sales channels.

Under the "Shishin Plus Business Program," the bank has concluded contracts with five leading companies in different industries with headquarters in the Kinki region. The bank coordinator grasps the technology issues and product needs of these large enterprises, and then matches them with customer SMEs which have the technologies and know-how required for joint development with the large enterprises.

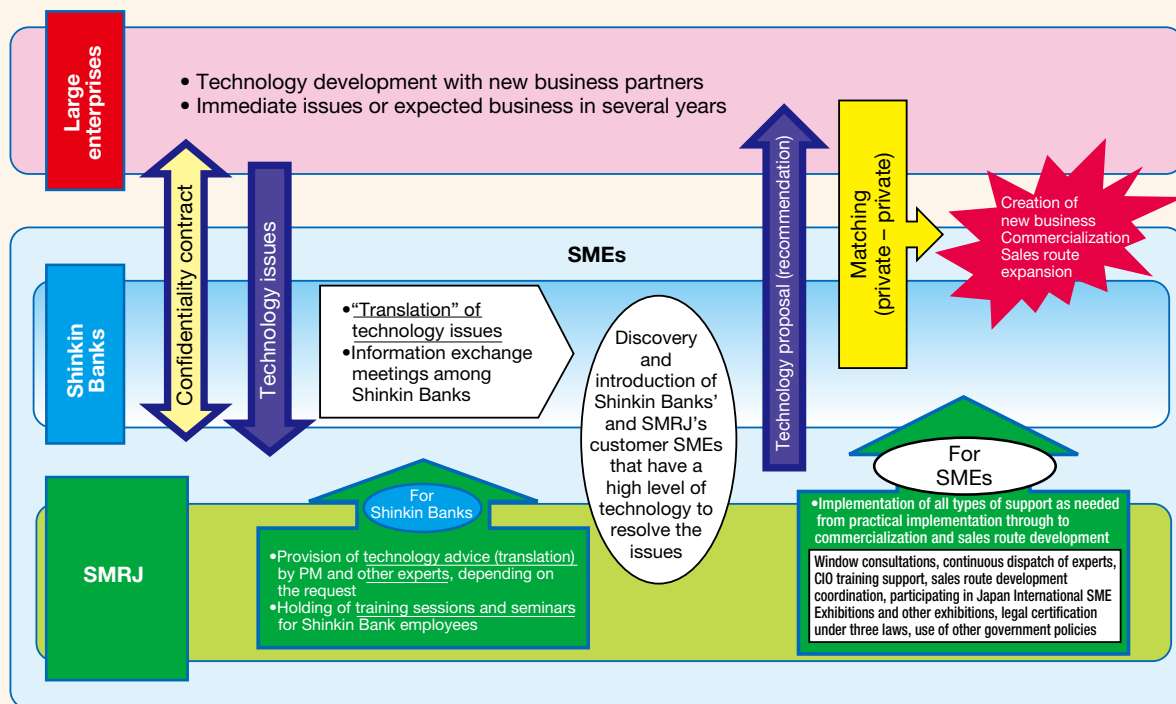
This business matching by Osaka City Shinkin Bank is unusual since the structure has the bank's SME customers create new businesses by resolving problems facing large enterprises. To date, approximately half the several hundred proposals that have been submitted by the SMEs have resulted in actual business inquiries from the large enterprises. There are also 28 joint product development efforts presently underway.

When one large enterprise was seeking new components at an unprecedented low price, the coordinator precisely grasped the company's needs and introduced an SME from an industry the company had never dealt with. To the SME, the technology required was obsolete, but to the large company it was innovative. So the large company successfully sourced the components at a low price from a local company outside its corporate group with novel technologies and ideas. The SME benefitted from selling to a large company with which it had no previous connection. There were great merits for both sides.

Osaka City Shinkin Bank benefits from helping its customer SMEs develop businesses, because this increases the bank's funding demand as the SMEs require increased working and investment capital. So the business matching is a win-win arrangement for the large enterprises, the SMEs and for the bank as well.

In collaboration with the SMRJ Kinki branch, Osaka City Shinkin Bank developed this business matching into a wider area "Shinkin + (Plus) Business Program" which was first implemented by four shinkin banks including Osaka Shinkin Bank from April 2010 and then implemented by eight additional shinkin banks from April 2011, spreading through the Kinki region.

**Case Fig. 2-2-5 Scheme of "Shinkin + (plus) Business Program"**



Participating Shinkin Banks  
 (Four initial banks): Osaka City Shinkin Bank, Kyoto Shinkin Bank, Juso Shinkin Bank and Tajima Shinkin Bank  
 (Eight newly participating banks): Koto Shinkin Bank, Kyoto Chuo Shinkin Bank, Osaka Higashi Shinkin Bank, U-bank Eiwa, Yamato Shinkin Bank, Kinokuni Shinkin Bank, Tanyo Shinkin Bank and Hyogo Shinkin Bank

### Case 2-2-6

#### A financial institution working hard for the advance of SMEs into agriculture business

Awa Bank, Ltd. is a financial institution located in Tokushima City, Tokushima Prefecture which noticed the growing interest among SMEs in entering agriculture as a new business field, and is positively engaged in bringing renewed vitality to the agriculture business.

Tokushima Prefecture is number one in Japan in shipments of *awa-odori* improved variety chicken and fresh shiitake mushrooms. The prefecture produces all types of agricultural products. To stimulate agribusiness in the prefecture, Awa Bank is actively supporting new farmers and new entries into the farming industry with financing and business matching.

As support for entry into agriculture, bank personnel visit farms, greenhouses, and food plants together with SMEs seeking to enter the industry, hold discussions and decide what crops to grow. Once the items are chosen, they visit agricultural support centers and research organs together, to confirm the business feasibility.

The financing support includes loans issued by Awa Bank itself, as well as joint funding with public financial organs, etc. The bank also provides advice on applying for whatever subsidies are available.

Before firms enter the market, the bank's support includes individual assistance in developing sales channels at supermarkets and other large retail outlets. Awa Bank has been holding annual "Food Matching Fair" business talks since 2006 where SMEs which are new to the market can also participate. The 2010 event was attended by 74 suppliers and 36 buyers, who held 450 separate business meetings. The bank also provides wide-ranging support including the development of sales routes for Tokushima regional specialties in the Kanto and Kansai regions.

As fruits of these efforts, Awa Bank has helped over a dozen SMEs from the construction, automobile parts manufacturing, gas station, design, woodworking, sake brewing, and fruits and vegetables wholesaling industries advance into agriculture. The SMEs which started the businesses have expressed great appreciation for the consulting the bank provided in helping them enter a new field while the local economy remains flat.

### Case 2-2-7

#### A financial institution where the president himself visits SMEs to build up personal relations

Hiroshimashi Credit Cooperative is a financial institution in Hiroshima City, Hiroshima Prefecture which has posted increased revenues and increased profits for eight consecutive fiscal years. This credit cooperative does not invest assets in any stocks or investment trusts outside its own main business. In fact, it lends out 90% of its deposits. Hiroshimashi Credit Cooperative is realizing high profits by specializing in the original business of local financial institutions—to take deposits and provide financing.

Hiroshimashi Credit Cooperative is the only credit cooperative in Japan to receive an "A- /Stable" rating from Japan Credit Rating Agency, Ltd. The cooperative's depositors can confirm its management conditions and policies in company disclosure documents and business reports, and deposit with confidence. Their deposit balance has been steadily growing because of this sense of security.

Under his creed that "we do not lend money, we have people make use of it," President Akihiro Yamamoto maintains a complete field orientation. He has visited about 7,000 companies in the six years since he took office. Through these personal visits, President Yamamoto can grasp the character of SME presidents, business growth potential, the internal atmosphere, employees and other conditions at each company. In principle Hiroshimashi Credit Cooperative responds to corporate loan applications within three days. These steady efforts have won support from SMEs, and Hiroshimashi Credit Cooperative's loans outstanding continued to grow even during the recession following the Lehman crisis.

## Column 2-2-2 Promotion of community-based finance at the Financial Services Agency

The Financial Services Agency is using supervisory guidelines and other measures to promote community-based finance as a business model for local financial institutions. This is finance rooted in the local community whereby financial institutions grow through mutual support with local SMEs. The efforts to date are summarized in the following figure.

### Column Fig. 2-2-2 Promotion of Community-based Finance

#### Action program concerning enhancement of relationship banking functions (March 2003)

- Identified the two years through fiscal 2004 as an "intensive improvement period" for local finance, and advanced various measures to strengthen relationship banking functions between SMEs and local financial institutions, revive SMEs and local economies, and resolve the non-performing loan problem at the same time.

#### Program for further financial reform (December 2004)

- Drafted a new reform program for local finance from fiscal 2005 forward.

#### New action program concerning enhancement of relationship banking functions (March 2005)

- Drafted a new action program for fiscal 2005 and fiscal 2006 as an intensive period to strengthen the community-based finance function, following the previous intensive program for fiscal 2003 and fiscal 2004.

#### Partial revisions of comprehensive guidelines for the supervision of regional financial institutions (August 2007)

- The promotion of community-based finance shifted from action programs for specific program years to a general policy framework from a middle- to long-term perspective. The necessary measures were clearly incorporated in supervisory guidelines.

#### Action plan for invigoration of the financial/capital market and financial industry (December 2010)

- It is important for local financial institutions to continuously advance, as organizations, efforts to support business improvement and expansion at their customer SMEs through consulting from a middle- to long-term perspective and actively participate in local economic recovery, and to link these to companies' own efforts to maintain and expand their customer base, boost earnings power and improve financial health.

#### Partial revisions of comprehensive guidelines for the supervision of regional financial institutions (May 2011)

- From the perspective of further advancing community-based finance, the revision further promotes having local financial institutions provide consulting to SMEs, participate in local economic recovery, and actively publicize information to customers and to the community.

## Column 2-2-3 Main connections between SME support policies and local financial institutions

In recent years, local financial institutions have begun making use of government SME support policies to support their customer SMEs and complement their own consulting functions. The following policies address the connections between SMEs support policies and local financial institutions.

- **SME support network reinforcement project**

This project is being implemented from fiscal 2011 to strengthen the support system for responding to SME management issues by constructing wide-ranging networks of SME organizations, local financial institutions and other support organs centered on the regional Bureaus of Economy, Trade and Industry, strengthening ties among support organs, and enhancing support capacity to address the business problems being faced by increasingly sophisticated SMEs. Under this project, consultants with both a high level of expertise and extensive experience in SME support are chosen by the regional Bureaus of Economy, Trade and Industry as patrol consultants who visit the support organs which make up the support network and provide consultations, supplementing the SME organization and local financial institution support functions.

- **SME Revitalization Support Councils**

These provide consultation by experts, assistance with drafting rehabilitation plans (voluntary restructuring), and coordination with financial institutions regarding rehabilitation plans for SMEs with businesses that are profitable, but which have financial problems.

- **SME Management Consultants**

This system registers individuals with the necessary expertise and experience to diagnose and advise SMEs as SME Management Consultants. In addition to certification under a testing system, experts can also be registered after completing a seven-month practical training course at SME Universities, etc.

- **Finance collaboration program (collaboration between regional Bureaus of Economy, Trade and Industry and local financial institutions)**

The regional Bureaus of Economy, Trade and Industry build networks among local financial institutions, government bodies, universities and trade associations, and support the spread of policies, human resources development and other measures to prepare an environment for local financial institutions to support SME management and local revitalization.



# Part III

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## SMEs as generators of economic growth

Part I described the tremendous damage caused to swathes of SMEs by the Great East Japan Earthquake on March 11, including the destruction of industrial infrastructure by the tsunami and the earthquake itself, the damage caused to plants, stores, and other facilities, and the business stoppages resulting from the nuclear power plant accident in Fukushima, and explained how shrinking sales due to deteriorating consumer sentiment and the paralysis of business due to the quake's impact on suppliers spread to affect the whole of Japan. Part II examined the important economic and social roles played by SMEs, both at the heart of industry's supply chains and as the bedrock of local communities, and demonstrated the need for action to tackle the rapid economic downturn and deepening structural issues if SMEs' virtues are to be preserved.

Given the severity of the situation facing SMEs, including the fact that many are being forced into bankruptcy or to close down due to the earthquake and the worsening of problems predating the earthquake, such as energy supply constraints, shrinking domestic demand, and intensifying global competition, we discuss in Part III the importance to the sustained growth of the Japanese economy of promoting economic renewal and regeneration (in the form of startups and changes of business) and the growth of SMEs through the improvement of labor productivity and grasping of business opportunities overseas.



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# Chapter 1

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## SMEs as sources of economic growth

Many of the enterprises that were behind Japan's postwar reconstruction and achieved growth amid radical changes in the business environment were founded by highly entrepreneurial individuals, and they have continued to aggressively enter new fields to keep ahead of the times. Some of Japan's top enterprises, such as Panasonic Corporation, Honda Motor Co., Ltd., and Sony Corporation, were founded by the likes of Konosuke Matsushita, Soichiro Honda, Masaru Ibuka, and Akio Morita, and they have transformed themselves again and again as they have evolved from local factories into global enterprises. In Chapter 1, we analyze startups and changes of business by enterprises in Japan, and discuss the major contributions made to economic growth by such activities.

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### Section 1 State of startups in Japan<sup>1)</sup>

All enterprises must come into being at some point in time. New enterprises that are still in their infancy are filled with unlimited potential, and entrepreneurs bring all their talents to the fore as they create a diversity of enterprises that bring innovation to the marketplace and generate large numbers of jobs. Their bold endeavors

ensure that the industrial structure is constantly renewed, driving economic growth and creating diverse economies and societies. In Section 1, we analyze the current state of startups in Japan, their significance, and the obstacles to promoting startups and steps being taken in response.

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#### [1] Current state of startups in Japan

##### ● State of entries and exits

Enterprises are being born and dying every day, making it extremely difficult to keep track of their dynamics. Below, we calculate entry and exit rates using government

statistics in order to identify trends in entries and exits in Japan over time in comparison with other countries.

Entry and exit rates in Japan can be calculated in several ways. Here, we calculate them by the three methods shown in Figure 3-1-1, and then outline trends in entries and exits based on the results.

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1) In *The Theory of Economic Development*, the Austrian economist Joseph Schumpeter wrote, "The old does not on the whole contain within itself the strength to make new major breakthroughs..."

**Fig. 3-1-1 Methods of calculation of entry and exit rates**

Entry and exit rates are defined differently according to how they are calculated, necessitating that comparisons be made with caution.

	Calculation based on MIC, <i>Establishment and Enterprise Census of Japan</i> and MIC, <i>Economic Census: Basic Survey</i>	Calculation based on MHLW, <i>Annual Report on Employment Insurance Programs</i>	Calculation based on Ministry of Justice (MOJ), <i>Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties</i> and National Tax Agency (NTA), <i>National Tax Agency Annual Statistics Report</i>
<b>Scope</b>	All business establishments and enterprises (excluding agriculture, forestry and fishery households, etc.)	Business establishments covered by employment insurance	<i>Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties</i> : Corporations whose incorporation has been registered  <i>National Tax Agency Annual Statistics Report</i> Up to and including 2006 Number of corporations whose business year ended between February 1 of each year and January 31 of the following year Fiscal 2007 onward Number of corporations as of June 30 of the following year
<b>Population</b>	<i>Establishment and Enterprise Census of Japan</i> Business establishments: 5,702,781 Enterprises: 4,210,070 (Non-primary private sector in 2006)  <i>Economic Census: Basic Survey (Preliminary Basic Aggregates)</i> Business establishments: 5,855,127 Enterprises: 4,202,630 (Non-primary private sector in 2009)	2,023,397 (end fiscal 2009)	2,841,088 (June 30, 2009)
<b>Survey years</b>	<i>Establishment and Enterprise Census of Japan</i> : First survey conducted in 1947. Surveys conducted every 3 years from 1948 to 1981, and every 5 years since 1981 (most recently in 2006). *However, surveys were conducted in 1989 and 1994 to maintain the establishment directory, and simplified surveys were conducted in 1999 and 2004.  <i>Economic Census: Basic Survey</i> : First conducted in 2009.	Surveys conducted every fiscal year.	<i>Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties</i> : Conducted every year. <i>National Tax Agency Annual Statistics Report</i> : Conducted every fiscal year.
<b>Definition of entry rate</b>	For the following periods: 1986-1989, 1991-1994, 1996-1999, 1999-2001, 2001-2004, 2004-2006 The annual average number of entering business establishments (enterprises) is calculated from the number of business establishments (enterprises) that entered since the previous survey, and then divided by the number of business establishments (enterprises) at the beginning of the period.  2006-2009 The annual average number of entering business establishments (enterprises) is calculated from the number of entering business establishments (enterprises) established since 2007, and then divided by the number of business establishments (enterprises) at the beginning of the period calculated based on continuing and existing business establishments (enterprises).  Periods other than the above The annual average number of entering business establishments (enterprises) is calculated based on the timing of their establishment, and then divided by the number of business establishments (enterprises) at the beginning of the period.	The number of business establishments newly entering an employment relationship in the fiscal year concerned is divided by the number of business establishments covered by employment insurance at the end of the previous fiscal year.	The number of incorporations registered in the year concerned is divided by the number of corporations in the previous year.
<b>Definition of exit rate</b>	For the following periods: 1986-1989, 1991-1994, 1996-1999, 1999-2001, 2001-2004, 2004-2006, 2006-2009 The annual average number of exiting business establishments (enterprises) is calculated from the number of business establishments (enterprises) that exited since the previous survey, and then divided by the number of business establishments (enterprises) at the beginning of the period.  Periods other than the above The annual average number of exiting business establishments (enterprises) is calculated based on the annual average number of entering business establishments (enterprises) determined based on the timing of their establishment and the annual average increase in the number of business establishments (enterprises), and then divided by the number of business establishments (enterprises) at the beginning of the period.	The number of business establishments that cease to be in an employment relationship in the fiscal year concerned is divided by the number of business establishments covered by employment insurance at the end of the previous fiscal year.	Difference between the company entry rate and the company growth rate in the year concerned
<b>Advantages</b>	(1) Covers all business establishments and enterprises (excluding agriculture, forestry and fishery households, etc.) (2) Possible to determine trends by industry	(1) Data available every fiscal year (2) Possible to determine trends by industry	(1) Data available every year
<b>Disadvantages</b>	(1) Long 2-5 year gap between surveys means that trends among business establishments (enterprises) that enter during the survey period and exit before the next survey cannot be ascertained. (2) Statistical reports are collected at the level of each survey district, which means that business establishments/enterprises that move between districts are detected as exits and entries. (3) <i>Establishment and Enterprise Census of Japan</i> depends on direct confirmation by census takers, and so does not detect business establishments (enterprises) that are not confirmable as such from the outside.	(1) Limited to business establishments that have employees (2) Does not allow entry and exit rates to be calculated at the enterprise level	(1) Figures on population and entries/exits cannot be derived from the same set of statistics (2) May include paper companies, dormant corporations, etc. (3) Not possible to determine entry and exit rates for sole proprietors.

Sources: MIC, *Establishment and Enterprise Census of Japan* and *Economic Census: Basic Survey*; MHLW, *Annual Report on Employment Insurance Programs*; MOJ, *Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties*; NTA, *National Tax Agency Annual Statistics Report*.

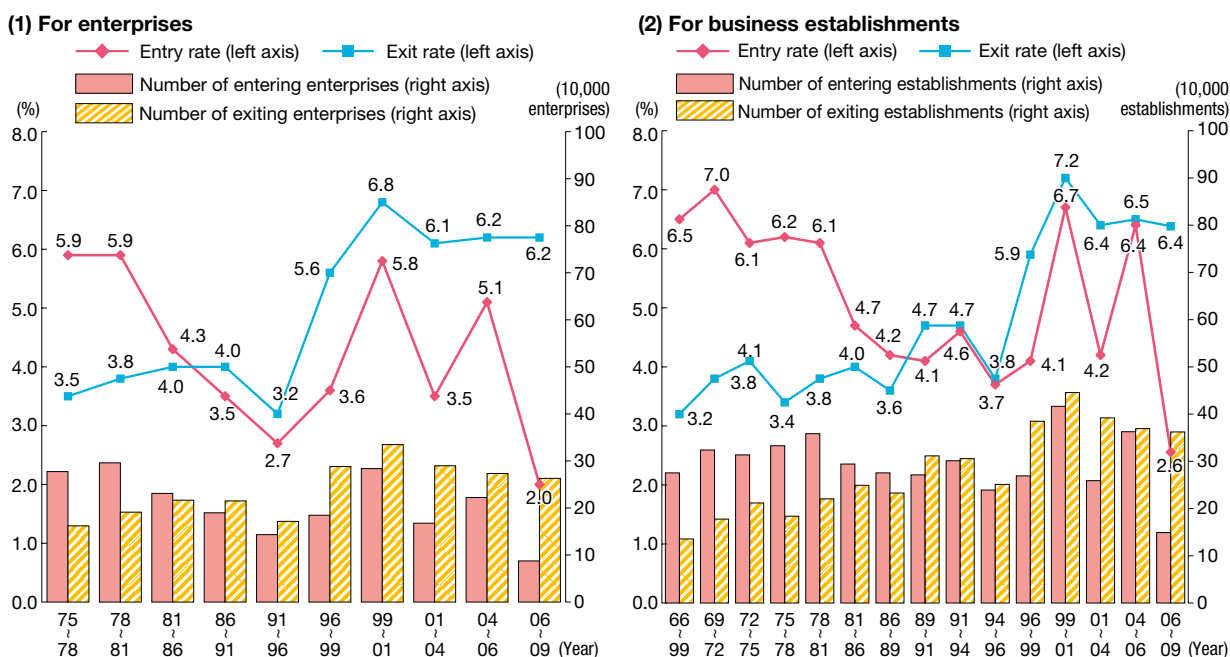
**1) Entry and exit rates based on MIC, Establishment and Enterprise Census of Japan and Economic Census: Basic Survey**

According to the *Establishment and Enterprise Census of Japan* (the only survey to cover all business establishments and enterprises in Japan) and the *Economic Census: Basic Survey*<sup>2)</sup>, which was created to take its

place, the entry rates for both enterprises and business establishments declined from the 1980s before picking up in the latter half of the 1990s. In more recent years, however, they have weakened, and since the end of the 1980s, they have remained below the corresponding exit rates, which continue to trend upward over the long term (Fig. 3-1-2).

**Fig. 3-1-2 Entry and exit rates based on Establishment and Enterprise Census of Japan and Economic Census: Basic Survey (annual averages)**

Entry rates for both enterprises and business establishments have remained below the corresponding exit rates since the end of the 1980s.



Sources: Recompiled from MIC, *Establishment and Enterprise Census of Japan* and *Economic Census: Basic Survey* (estimates calculated by SME Agency).

- Notes:
1. The number of enterprises equals the number of companies plus the number of business establishments of sole proprietors (independent business establishments, head offices, and branch establishments).
  2. Entry and exit rates for business establishments include openings and closures of branches and plants, and openings and closures due to moves.
  3. Rates are calculated based on the *Establishment and Enterprise Census of Japan* for the period up to 2006, and the *Economic Census: Basic Survey* for the period 2006-2009. Note, however, that the survey was conducted as the *Establishment Census* until 1991, *Establishment Directory Maintenance* in 1989, and *Establishment Directory Maintenance Survey* in 1994. The survey was additionally conducted in simplified form in 1999 and 2004.
  4. Entry rate = annual average number of entering enterprises (business establishments) / number of enterprises (business establishments) at beginning of period × 100  
The number of enterprises (business establishments) at the beginning of the 2006 period was calculated from the number of continuing and exiting enterprises (business establishments) according to the 2009 *Economic Census: Basic Survey*.
  5. Exit rate = annual average number of exiting enterprises (business establishments) / number of enterprises (business establishments) at beginning of period × 100  
The number of enterprises (business establishments) at the beginning of the 2006 period is based on data from the 2006 *Establishment and Enterprise Census of Japan*.
  6. Due to differing definitions of entering enterprises (business establishments), entry rates in 2006-2009 cannot be compared with past rates. Due to differing definitions of entering enterprises (business establishments) and exiting enterprises (business establishments), straightforward comparisons of the entry rate and exit rates in 2006-2009 cannot be made. For details of the calculation of entry and exit rates, see Supplementary Statistical Data Table 4.

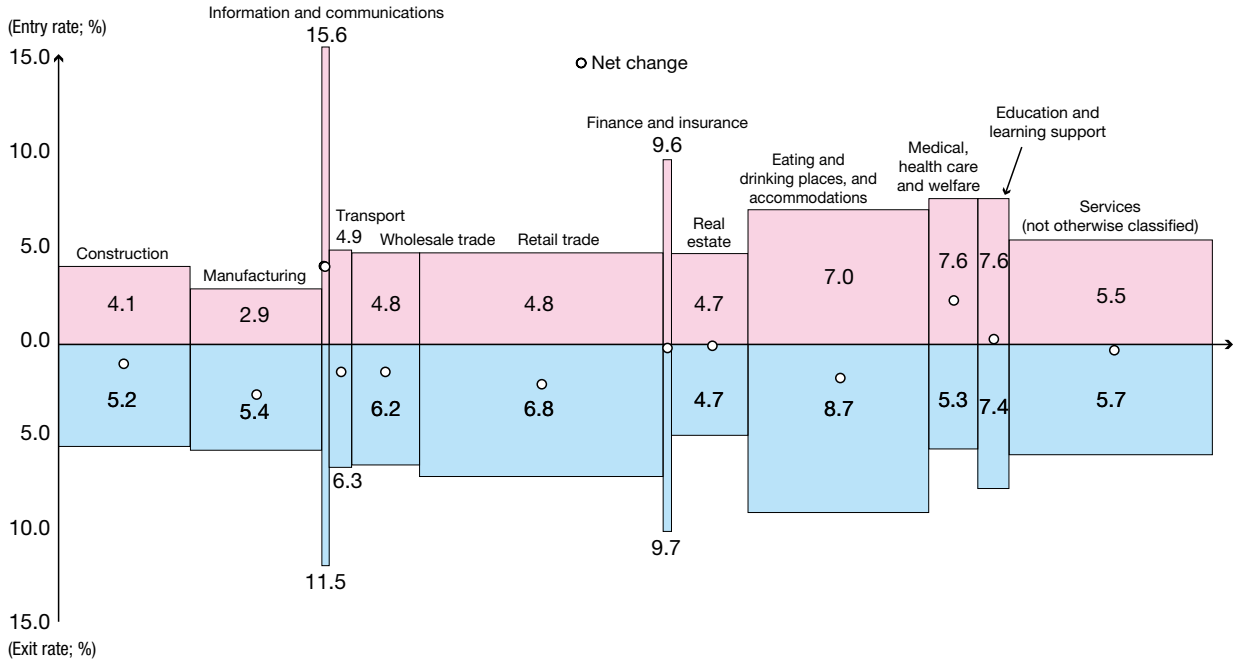
As noted above, the *Economic Census: Basic Survey* may underestimate the entry rate in comparison with the *Establishment and Enterprise Census of Japan* (see Column 3-1-1). Fig. 3-1-3 therefore shows entry and exit rates for enterprises by industry calculated from the *Establishment*

and *Enterprise Census of Japan* immediately prior to the switch to the *Economic Census: Basic Survey*. While the entry rate is less than the exit rate in most industries, it considerably exceeds the exit rate in information and communications and medical, health care and welfare.

2) The analysis below used provisional data based on preliminary basic aggregates. These may differ from the results of subsequently confirmed detailed aggregates.

**Fig. 3-1-3 Entry and exit rates by industry calculated from *Establishment and Enterprise Census of Japan* (annual averages for enterprises, 2004-2006)**

The entry rate is high in information and communications and medical, health care, and welfare, in which fields it exceeds the exit rate.



Source: Recompiled from MIC, *Establishment and Enterprise Census of Japan*.

- Notes:
1. The horizontal axis indicates the proportion of all enterprises (non-primary industry) at the beginning of the 2004 period accounted for by the enterprises in each industry.
  2. Mining, electricity, gas, heat supply and water, and compound services are not shown due to the small number of enterprises in these industries.
  3. Entry rate = annual average number of entering enterprises / number of enterprises at beginning of period × 100
  4. Exit rate = annual average number of exiting enterprises / number of enterprises at beginning of period × 100

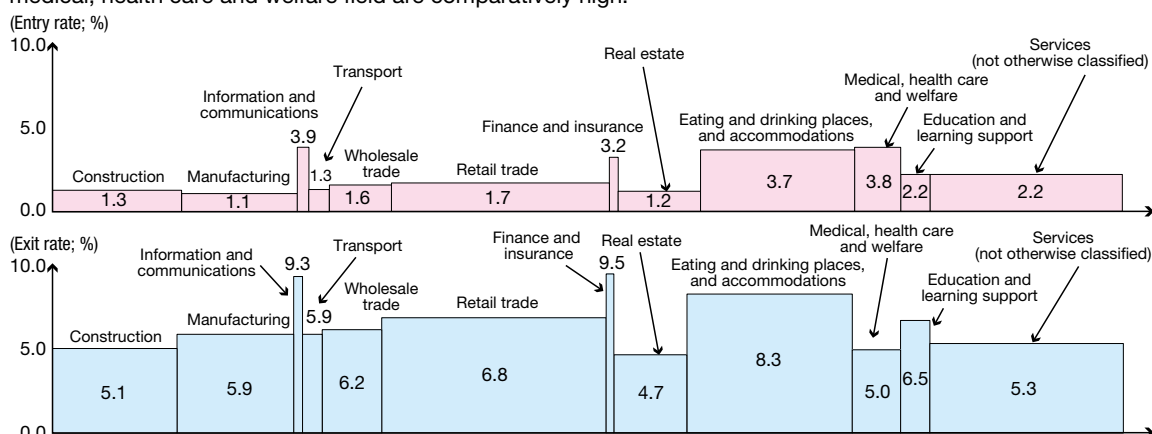
### Column 3-1-1 Calculation of entry and exit rates by industry based on MIC's *Economic Census: Basic Survey*

The *Economic Census: Basic Survey* was created by taking the place of the *Establishment and Enterprise Census of Japan*, which was implemented through 2006 and used for calculating entry and exit rates. The first *Economic Census: Basic Survey* was implemented in 2009. This survey cannot be directly compared with the former *Establishment and Enterprise Census of Japan* because of statistical changes: (1) it expands the range of enterprises and business establishments surveyed using government records, such as business and corporation registrations, and (2) it introduces a business group survey approach whereby the proprietors at head offices, etc. provide information for head offices and branch establishments, etc. all at once.

The *Economic Census: Basic Survey* includes information on business establishments' changes, identifying which business establishments are continuing, entering, or exiting. As shown in Figure 3-1-2 above, if we use such data to calculate, for example, entry and exit rates (annual average) by industry for enterprises from 2006 to 2009, it shows an entry rate of 2.0% and an exit rate of 6.2%, with a large decline in the entry rate. While the decline in the entry rate continues in recent years, these figures also reflect changes in the survey method<sup>3)</sup>, and they cannot be directly compared with the prior entry and exit rates. Nevertheless, it can be said that the recent trend of a low entry rate remains unchanged. Also, the comparison of entry rates by industry shows comparatively high entry rates in the information and communications industry and in the medical, health care and welfare field.

#### Column Fig. 3-1-1 Entry and exit rates by industry based on *Economic Census: Basic Survey* (annual averages for enterprises, 2006-2009)

While the overall entry rate remains low, the entry rates in the information and communications industry and in the medical, health care and welfare field are comparatively high.



Source: Recompiled from MIC, *Economic Census: Basic Survey* (estimates calculated by SME Agency).

- Notes
1. The horizontal axis indicates the proportion of all enterprises (non-primary industry) at the beginning of the 2006 period accounted for by the enterprises in each industry.
  2. Mining, electricity, gas, heat supply and water, and compound services are not shown due to the small number of enterprises in these industries.
  3. Entry rate = annual average number of entering enterprises / number of enterprises at beginning of period  $\times 100$   
The number of enterprises at the beginning of the period was calculated from the number of continuing and exiting enterprises according to the 2009 *Economic Census: Basic Survey*.
  4. Exit rate = annual average number of exiting enterprises / number of enterprises at beginning of period  $\times 100$   
The number of enterprises at the beginning of the period is based on data from the 2006 *Establishment and Enterprise Census of Japan*.
  5. Due to differing definitions of entering enterprises and exiting enterprises, straightforward comparisons of the entry rate and exit rates cannot be made. For details of the calculation of entry and exit rates, see Supplementary Statistical Data Table 4.

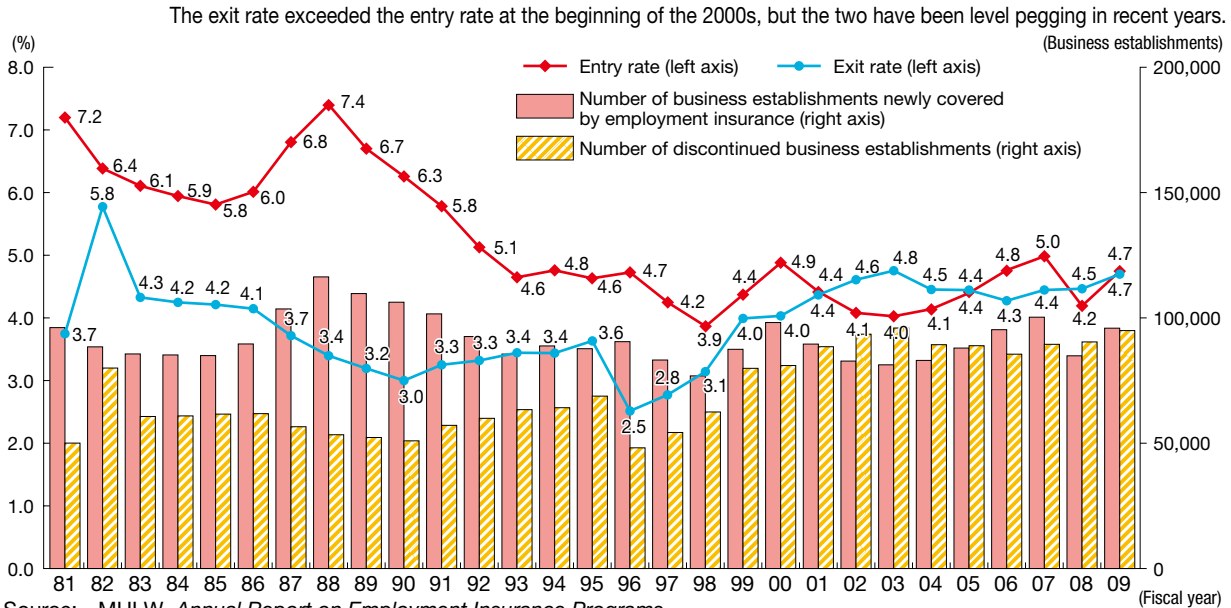
#### 2) Entry and exit rates based on MHLW, *Annual Report on Employment Insurance Programs*

Fig. 3-1-4 shows the entry and exit rates for business establishments with employees calculated based on the number of business establishments newly covered by employment insurance and the number of discontinued business establishments. The entry rate plunged from the end of the 1980s following the bursting of the

economic bubble. The exit rate, on the other hand, fell in the mid-1990s, but then gradually rose and exceeded the entry rate at the beginning of the 2000s. In recent years, however, the entry and exit rates have been level pegging. The number of business establishments covered by employment insurance also rose at the end of 1980s and at the beginning and in the middle of the 2000s.

- 3) While the *Establishment and Enterprise Census of Japan* defined entering business establishments as those establishments newly added to the census by examiners in their survey areas, the *Economic Census: Basic Survey* defines entering business establishments by their opening dates. Accordingly, business establishments that relocated from other survey areas were categorized as entering business establishments under the *Establishment and Enterprise Census of Japan*, while these are categorized as continuing business establishments under the *Economic Census: Basic Survey* if their date of establishment (not their date of relocation) is recorded as their date of opening in the survey form. Thus the *Economic Census: Basic Survey* may underestimate the entry rate than in the past. Similarly, newly discovered business establishments were categorized as entering establishments under the *Establishment and Enterprise Census of Japan*, but are categorized as either entering or continuing business establishments under the *Economic Census: Basic Survey*, depending on their date of opening. This may also underestimate the entry rate than in the past.

**Fig. 3-1-4 Entry and exit rates based on Annual Report on Employment Insurance Programs**



Source: MHLW, *Annual Report on Employment Insurance Programs*.

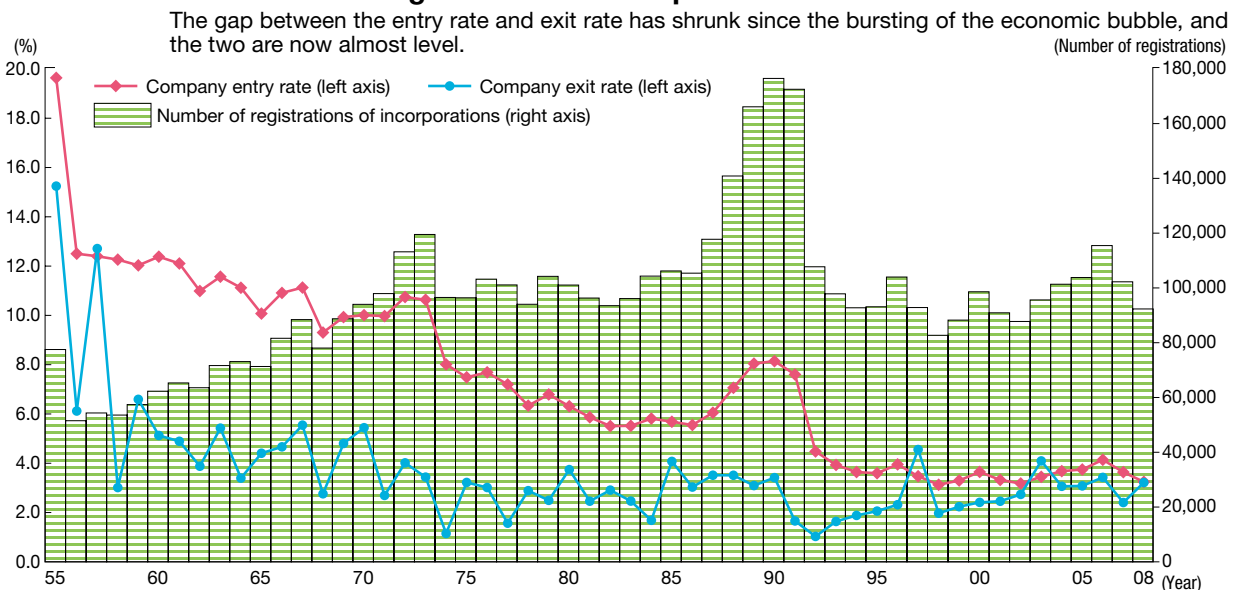
- Notes:
1. Entry rate = number of business establishments newly insured/covered by employment insurance in the fiscal year concerned / number of business establishments covered by employment insurance at the end of the previous year × 100
  2. Exit rate = number of business establishments that cease to be covered by employment insurance in the fiscal year concerned / number of business establishments covered at the end of the previous year × 100
  3. "Establishments covered by employment insurance" are business establishments that become insured under labor (employment) insurance under the provisions of the Act on Collection of Labour Insurance Premiums (Article 5 of the Employment Insurance Act).

**3) Entry and exit rates based on MOJ, *Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties* and NTA, *National Tax Agency Annual Statistics Report***

Calculating entry and exit rates from the number of companies and number of registrations of incorporations

in Japan reveals that the entry rate rose in the late 1980s, since when it has followed a downward trend. The exit rate, on the other hand, has trended upward since the 1990s, and is now approximately level with the entry rate. The number of registrations of incorporations, meanwhile, surged in the late 1980s, and crept up in the mid 2000s (Fig. 3-1-5).

**Fig. 3-1-5 Entry and exit rates based on number of companies and number of registrations of incorporations**



Sources: MOJ, *Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties*; NTA, *National Tax Agency Annual Statistics Report*.

- Notes:
1. The number of registrations of incorporations is according to the *Annual Report on Registrations, Litigation and Civil Liberties* from 1955 to 1960, *Annual Report on Registrations, Litigation and Civil Liberties* from 1961 to 1971, and *Annual Report on Civil Affairs, Litigation, and Civil Liberties* from 1972 onward.
  2. Company entry rate = number of registrations of incorporations / number of companies in previous year × 100
  3. Company exit rate = company entry rate - company increase rate

Having thus calculated the entry and exit rates by the above three methods, we may summarize our findings as follows: (1) there has been a marked weakening of entry rates and rise in exit rates since the bursting of the economic bubble; and (2) there have occurred periods of particularly vigorous startup activity, such as during the economic bubble at the end of the 1980s, the information technology boom at the beginning of the 2000s, and the relaxation and lifting of minimum capital requirements at the beginning of the 2000s.

● **Key figures in startups**

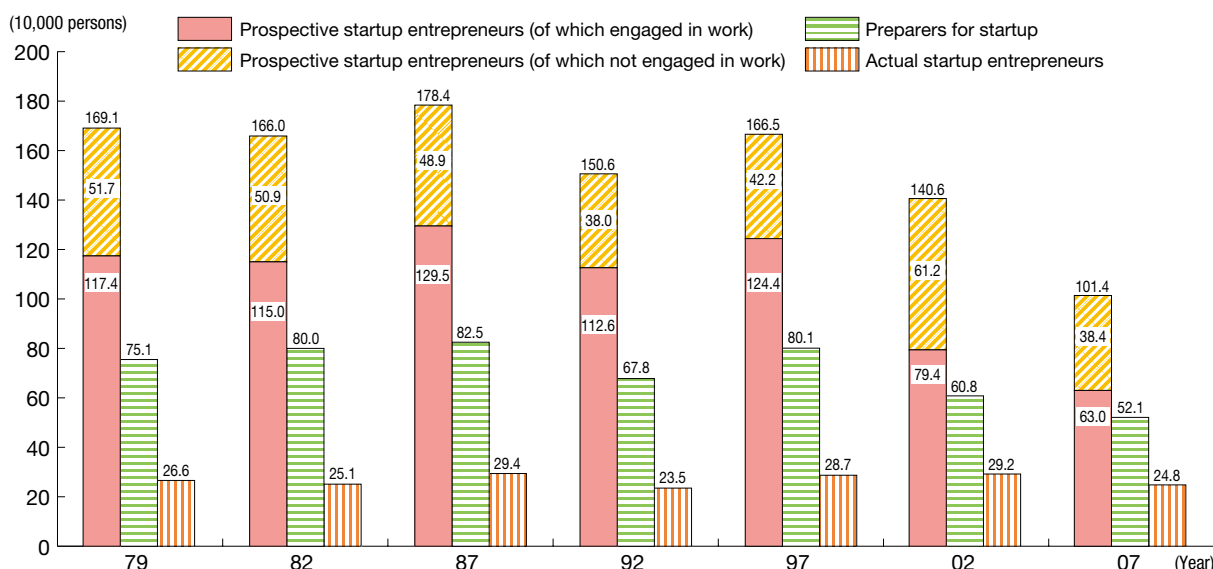
Having examined trends in entry and exit rates focusing

on numbers of enterprises and business establishments in Japan, we now outline the situation regarding the key people in startups using data from MIC's *Employment Status Survey*.

As Fig. 3-1-6 shows, 200,000 to 300,000 new entrepreneurs emerged in Japan every year between 1979 and 2007. While the number of prospective startup entrepreneurs and preparers for startup, on the other hand, dropped sharply from the late 1990s, there were still over one million potential startup entrepreneurs in 2007.

**Fig. 3-1-6 Key figures in startups**

Despite trending downward in recent years, there were still 200,000-300,000 startup entrepreneurs and over a million prospective startup entrepreneurs in 2007.



Source: Recompiled from MIC, *Employment Status Survey*.

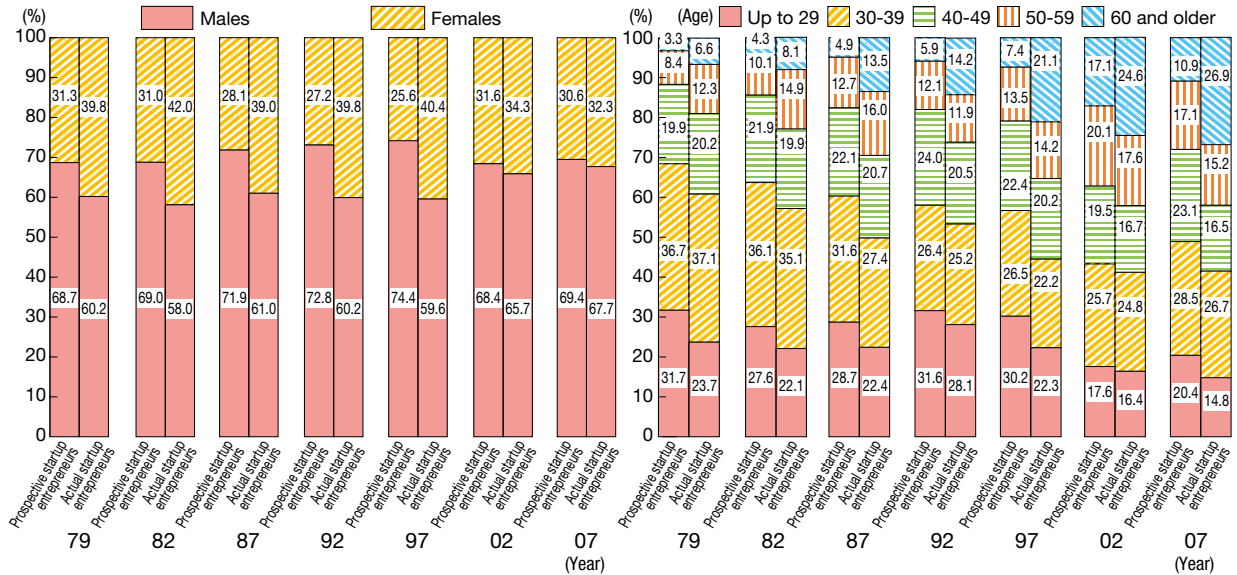
- Notes:
1. "Prospective startup entrepreneurs (of which engaged in work)" consists of persons engaged in work and wishing to change jobs who responded "want to start own business."
  2. "Prospective startup entrepreneurs (of which not engaged in work)" consists of persons not engaged in work who responded "want to start own business."
  3. "Preparers for startup" consists of prospective startup entrepreneurs who responded "looking (for work)" or "preparing to start a business."
  4. "Actual startup entrepreneurs" consists of persons who changed or found new employment in the past year and are now self-employed (excluding homeworkers).

Prospective startup entrepreneurs and actual startup entrepreneurs by gender and age are broken down by gender and age in Fig. 3-1-7. From this it can be seen that women and entrepreneurs aged 60 and older respectively made up approximately 30% of the total. It may also be observed that persons aged 60 and older have made up increasing proportions of the total number of prospective startup

entrepreneurs and actual startup entrepreneurs since 1979. The 60-and-older age group has also made up a constantly high proportion of actual startup entrepreneurs compared with prospective startup entrepreneurs, indicating that the greater funds and experience possessed by people in this age group make it easier for them to start up in business in comparison with younger age groups.

**Fig. 3-1-7 Breakdown of prospective startup entrepreneurs and actual startup entrepreneurs by gender and age**

In 2007, women and entrepreneurs aged 60 and older each made up approximately 30% of the total. The proportion of entrepreneurs aged 60 and older has also been high in recent years, and the 60-and-older age group accounts for a higher proportion of actual than prospective startup entrepreneurs.



Source: Recompiled from MIC, *Employment Status Survey*.

- Notes:
1. "Prospective startup entrepreneurs" consists of persons engaged in work and wanting to change jobs who responded "want to start own business," and persons not engaged in work who responded "want to start own business."
  2. "Actual startup entrepreneurs" consists of persons who changed or found new employment in the past year and are now self-employed (excluding homeworkers).

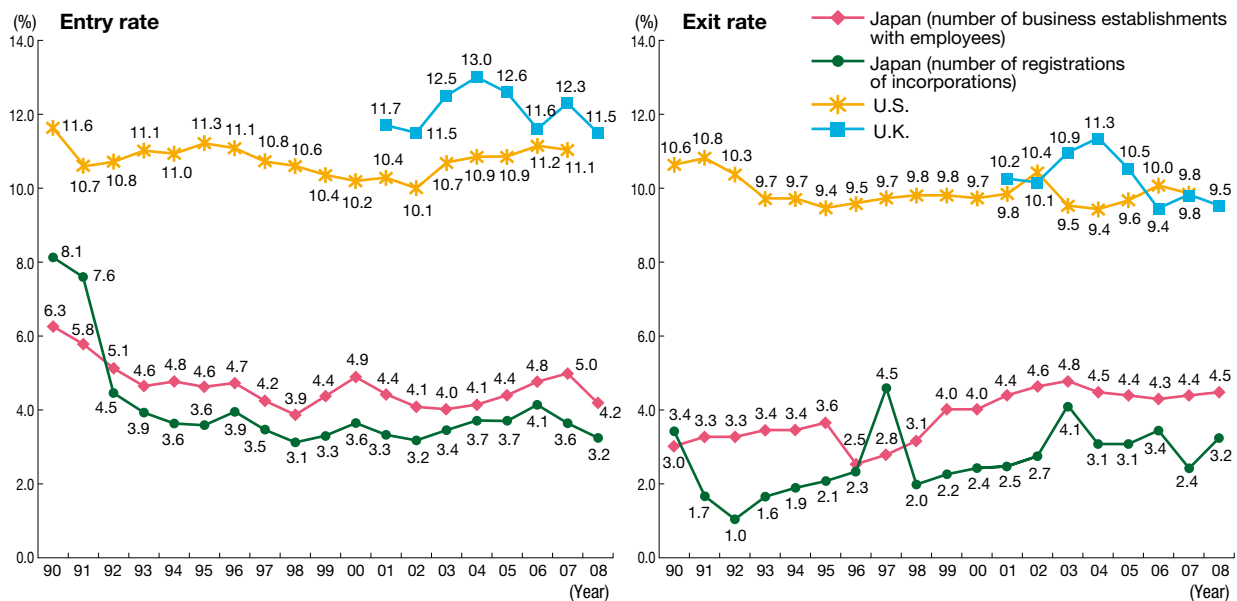
● **Entry and exit rates by international comparison**

Having thus seen that Japan's entry rates are presently lackluster and that the desire to start up in business in particular has receded in recent years, we next compare the situation regarding entries, exits, and entrepreneurs in Japan with other countries.

A comparison of Japan's entry and exit rates with those of the U.S. and U.K. is shown in Fig. 3-1-8. While it must be borne in mind that the underlying statistics used differ in nature according to the country concerned, it may still be observed that Japan's entry and exit rates are lower than those of the other two countries.

**Fig. 3-1-8 International comparison of entry and exit rates**

Japan's entry and exit rates are the lowest of the three.



Sources: Japan: MHLW, *Annual Report on Employment Insurance Programs*; MOJ, *Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties*; NTA, *National Tax Agency Annual Statistics Report*.

U.S.: U.S. Small Business Administration, *The Small Business Economy: A Report to the President* (2010).

U.K.: Office for National Statistics, *Business Demography* (2009).

- Notes:
1. Entry and exit rates for the U.S. are calculated on the basis of the appearance and disappearance of employers.
  2. Entry and exit rates for the U.K. are calculated on the basis of the number of enterprises registered for Value Added Tax (VAT) and Pay As You Earn (PAYE) tax.
  3. As the nature of the underlying statistics used for each country differs, straightforward comparisons are not possible.



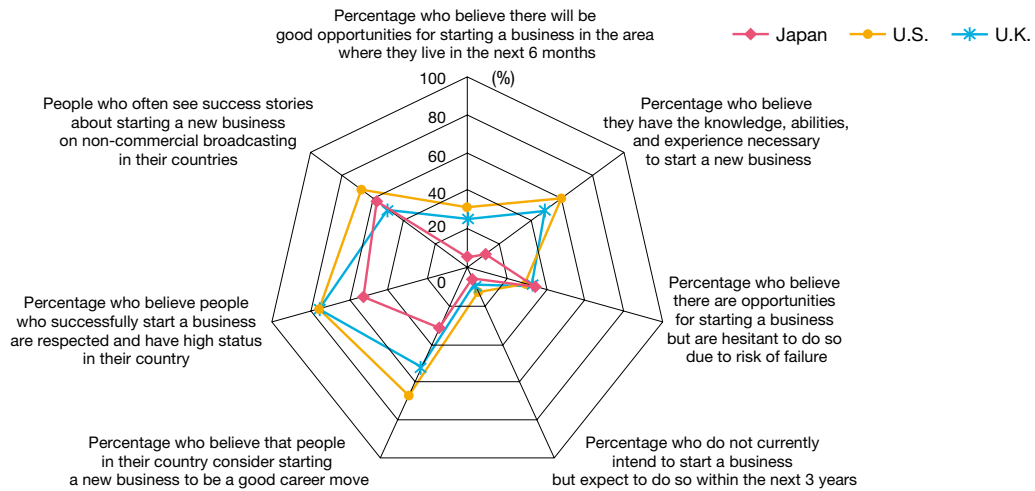
Similarly, an international survey of opinion conducted by the Global Entrepreneurship Monitor (GEM) (Fig. 3-1-9) shows that although many in Japan consider media interest in entrepreneurial activity to be high, few consider themselves to have the opportunities, abilities, or desire to start up in business, and the number of people who have a

positive opinion of the status of entrepreneurs and starting up in business as a career choice is also low.

Thus in comparison with other countries, entries and exits in Japan appear somewhat sluggish, and opinion of startups is also not high.

**Fig. 3-1-9 Attitudes toward and opinion of entrepreneurship**

Attitudes toward and opinion of entrepreneurship in Japan are generally negative.



Source: Global Report Entrepreneurship Monitor, 2010 Global Report.

**[2] Significance of startups**

The above analysis of statistics and surveys on trends in entries and exits and the current situation regarding entrepreneurs confirmed that, from a statistical point of view, entrepreneurship in Japan has been at the low ebb in recent years, both in comparison with earlier periods and with other countries. But while entrepreneurship in Japan in recent years may not be particularly high, we must nevertheless consider the following questions: How exactly do startups affect the Japanese economy, society, and individuals? And why is it important to stimulate greater startup activity? Below, we consider the impact of startups on the national economy from three angles: (1) economic renewal and the high growth potential of new enterprises, (2) job creation, and (3) the social diversity created by startups.

● **(1) Stimulation of economic renewal by startups and high growth potential of new enterprises**

Possible the most important thing about startups

is that they stimulate economic renewal by bringing innovative technologies to the marketplace and creating enterprises with the high growth potential to drive economic growth. Enterprises are constantly appearing and disappearing, and it is precisely this entry and exit of enterprises that serves as the driving force to accelerate the transformation of industrial structure and innovation and to sustain economic growth. Of particular importance are entrepreneurs who enter the market armed with new products and technologies, as their businesses have the potential to grow rapidly, transforming the existing economic order and providing the engine for economic growth.

Fig. 3-1-10 shows a breakdown by year of startup of business establishments in manufacturing since 1988. This reveals that new business establishments are constantly emerging every year, with business establishments started in or after 1988 accounting for approximately 45% of the total in 2007.

**Fig. 3-1-10 Breakdown of business establishments by year of startup (manufacturing)**  
 Business establishments started in or after 1988 accounting for approximately 45% of the total in manufacturing in 2007.

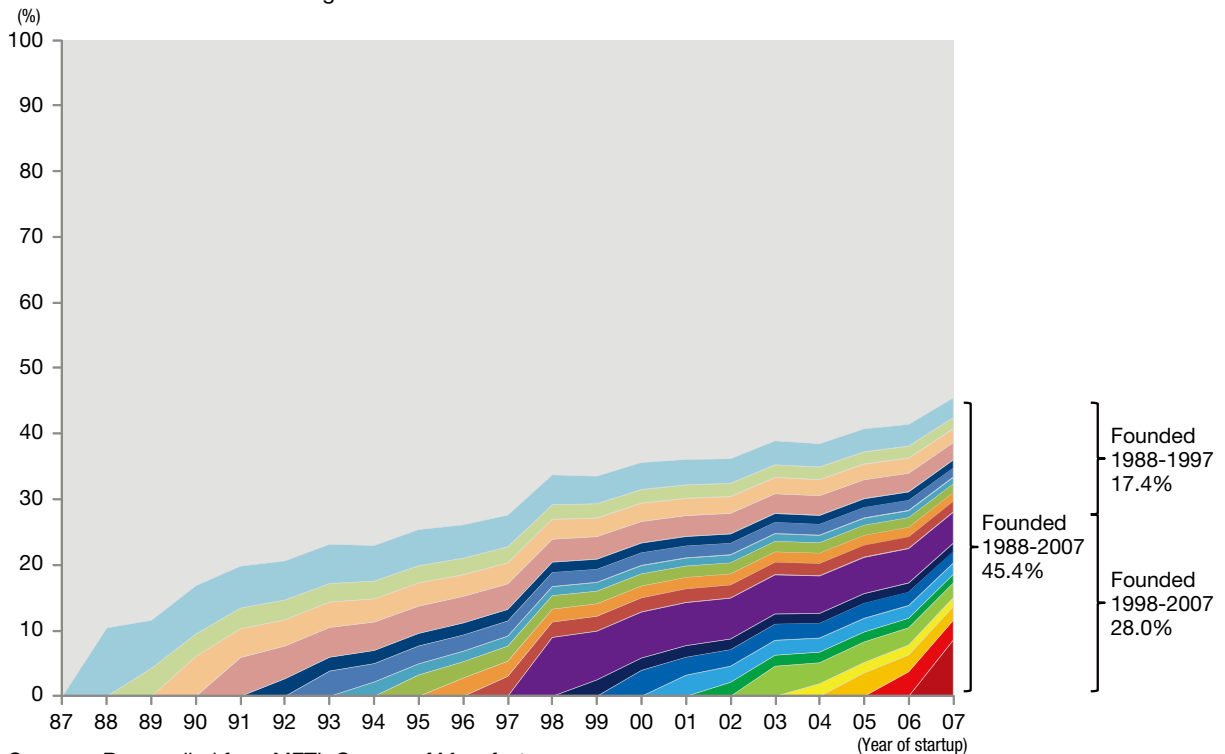
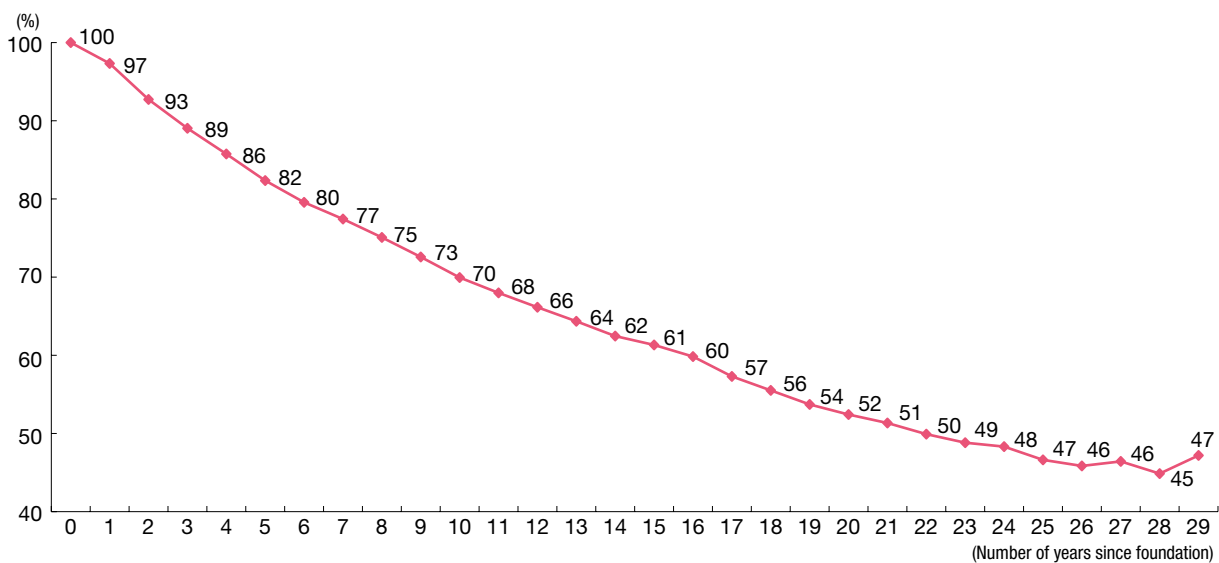


Fig. 3-1-11, on the other hand, shows the average survival rates by number of years since foundation of enterprises founded between 1980 and 2009. It can be seen from this that the proportion of enterprises that have withdrawn is

approximately 30% after 10 years and approximately 50% after 20 years. This indicates that while new enterprises are constantly entering the market, they are also subsequently subject to rigorous weeding out.

**Fig. 3-1-11 Enterprise survival rates**

Enterprises are subject to rigorous weeding out after startup, with approximately 30% withdrawing after 10 years and approximately 50% after 20 years.

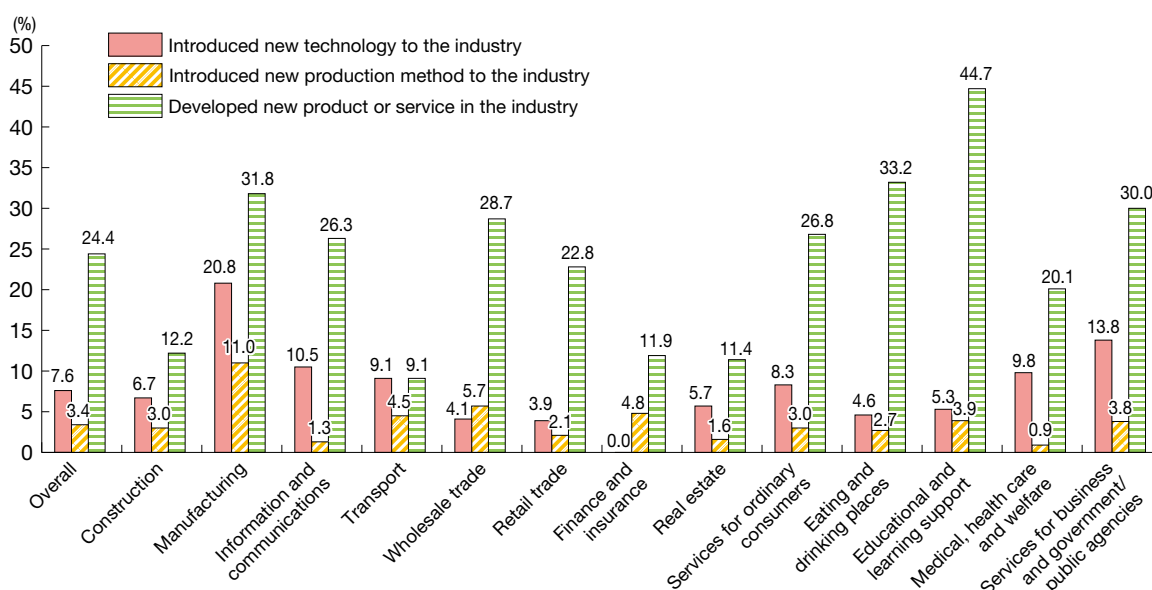


Entries and exits of enterprises occur continuously, and it appears likely that innovation in the marketplace—in the form of the introduction of new technologies and production systems and the development of new products and services—is especially likely to occur when new enterprises enter the market. According to the *Fact-finding Survey on Startups*<sup>4)</sup> commissioned by the SME Agency and conducted in December 2010 by Teikoku Databank,

Ltd. (referred to below as the *Startup Survey*), many new enterprises are founded already armed with some form of innovation to offer (whether through the introduction of a new technology or production method, or the development of a new product or service), indicating that such enterprises generate innovation in the marketplace (Fig. 3-1-12).

**Fig. 3-1-12 Business innovations at startup**

Many new enterprises introduce or develop new technologies, production systems, products, or services for the market.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

The enterprises that are expected to play a particularly key role in innovation are ventures emanating from universities. As Fig. 3-1-13 shows, the number of university ventures has grown since the enactment of the “Act on the Promotion of Technology Transfer from Universities to Private Business Operators” in 1998 and the establishment of the “1,000 University Ventures Plan” in 2001, and the total number engaging in business

as of the end of fiscal 2008 was 1,809. The *2009 White Paper on Small and Medium Enterprises in Japan* drew attention to the importance of ascertaining customer and general consumer needs in innovation,<sup>5)</sup> and it is hoped that these university ventures will bring innovation to the marketplace by bringing to light and commercializing university’s latent research outputs.<sup>6)</sup>

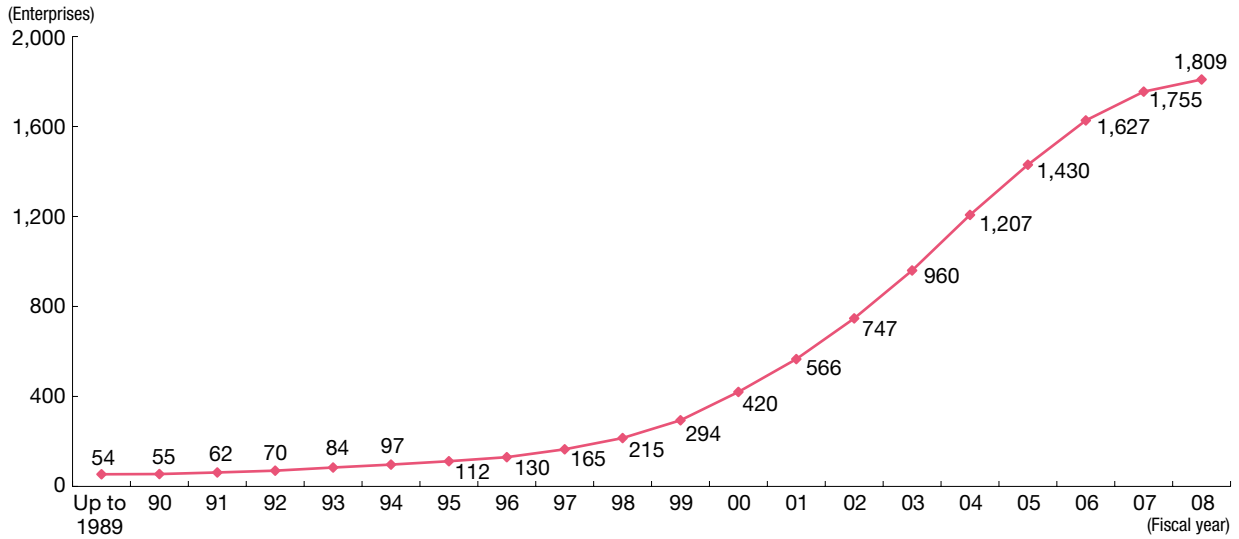
4) Commissioned by the SME Agency and conducted by Teikoku Databank, Ltd. in December 2010, it consisted of a questionnaire survey of 10,000 enterprises founded in or after 2001. The response rate was 25.8%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

5) See pp. 70-71 of *2009 White Paper on Small and Medium Enterprises in Japan*.

6) According to the results of the *Basic Survey of University Ventures* (February 2009), commissioned by METI and conducted by the Japan Economic Research Institute (JERI), operating profit per enterprise in the latest and previous year of university ventures on which two years of data are available is negative, indicating that university ventures do not necessarily exhibit high growth.

**Fig. 3-1-13 Cumulative number of university ventures**

The cumulative number of university ventures had climbed to 1,809 by fiscal 2008.



Source: Japan Economic Research Institute Inc. (JERI), *Basic Survey of University Ventures* (February 2009), commissioned by SME Agency.

Note: University ventures are here defined as follows: enterprises that have been newly established for the purpose of commercializing patents or new technologies or business models arising from university research; enterprises that have performed joint research, etc. with universities within five years of their establishment in order to commercialize technologies and know-how possessed by the founder; enterprises that have been the recipient of technologies transfers within five years of their establishment to maintain or develop existing business; and other ventures that have close ties with universities, such as student ventures with close university ties and ventures that have received investment from universities.

**Case 3-1-1**

**A university venture making use of research findings to develop new anticancer and regenerative drugs with few side effects**

Kringle Pharma, Inc. is a biotechnology venture company in Toyonaka City, Osaka Prefecture with 13 employees and capital of ¥100 million which was spun off from Osaka University in 2001. Kringle Pharma is engaged in the development of biotech drugs using HGF (hepatocyte growth factor), which was discovered by Professor Emeritus Toshikazu Nakamura of the Osaka University Faculty of Medicine, and its antagonist<sup>7)</sup> NK4. HGF has an extremely potent regenerative effect for diverse cells and organs, and its use may prevent the onset and enable treatment of various diseases. NK4 freezes the action of cancer cells and makes them dormant, and is expected to be used in anticancer medicines.

President Kunio Iwatani was involved with launching an overseas business for a major drug manufacturer and later became representative director at a mid-sized pharmaceutical company. He took up his present post as president of Kringle Pharma in 2003 after learning about the existence of HGF and NK4, because he “wanted to develop a drug that will help people suffering from intractable diseases.” President Iwatani has been developing this business making use of his experience and personal connections from his former positions and expert advice, and by gaining investments giving appropriate explanations regarding venture capital, etc.

In 2009, Kringle Pharma won the 6th Japan Bio-Venture Award. The company is presently conducting clinical trials in the U.S. on the use of HGF for treatment of renal disease and clinical trials in Japan on the use of HGF for the treatment of incurable neuronal diseases, and is expected to continue growing.



Kringle Pharma researchers at work

7) Substances that bond with specific receptors and inhibit the receptors’ activity.

**Case 3-1-2**

**A university venture successfully developed plasma technology with expected applications in biomedicine and lithium batteries**

Sakigake-Semiconductor Co., Ltd. is a venture company in Kyoto City, Kyoto Prefecture with 8 employees and capital of ¥3 million which was spun off from Kyoto Institute of Technology in 2002. The company's technologies involving the highly reactive plasma state—in which electrons are free from molecules and atoms—are expected to be applied in such fields as biomedicine and lithium batteries.

President Koshi Taguchi conducted research on plasma from when he was an undergraduate, and entered a plasma-related company after he received his master's degree. When the venture company boom arrived in the early 2000s, he returned to university with the desire to launch a business. Taguchi founded Sakigake-Semiconductor in 2002, while still studying for his doctorate degree, to apply his research findings. He was 28 years old. Taguchi says "Starting a company in my late 20s was the best timing. I was filled with energy, and still young enough to get by with some mistakes." The company's powder plasma processing technology, which produces powder dispersion solution more efficiently, was awarded the Kansai Front Runner Grand Prize in 2010 and is expected to be used for lithium-ion batteries and other applications.

While Sakigake-Semiconductor is a new venture company expected to realize high growth, President Taguchi stresses that "Solid business development is important." The company works at steady management with its primary focus on social contribution and human resources development. Sakigake-Semiconductor prepares a "Knowledge Management Report" which presents information on corporate personnel, technologies, management philosophy and other intangible management assets to its creditors, shareholders and customers. This company explains its business and future plans to customers and business partners, etc., and shares its management philosophy with employees so that they can jointly participate in business management.



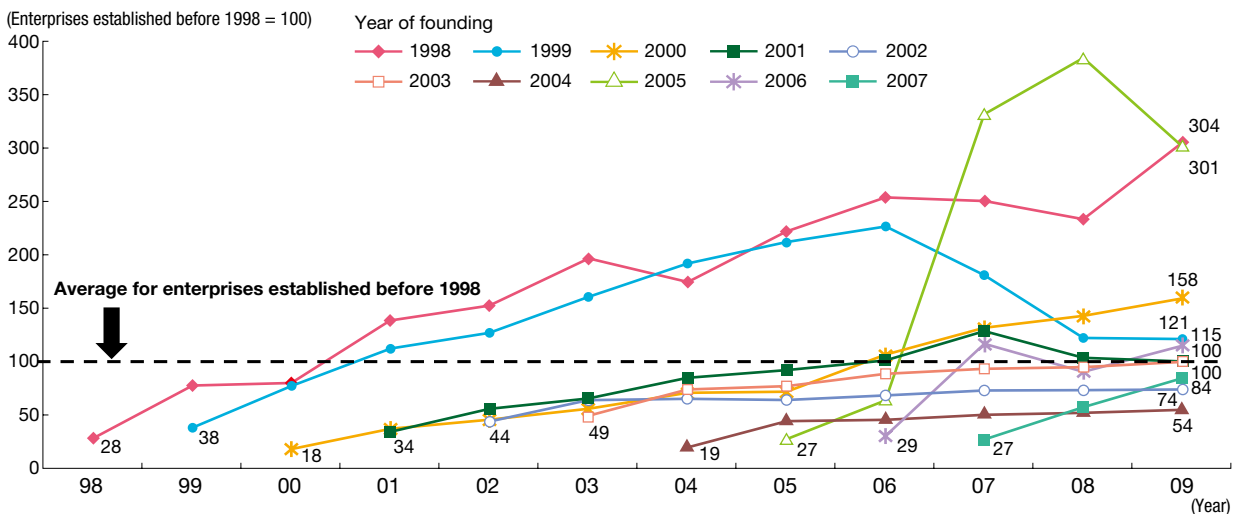
Vacuum plasma device that improves surface properties

Next, we look at the average sales of Japanese enterprises founded each year between 1998 and 2007 in comparison with the average for enterprises founded before 1998, shown in Fig. 3-1-14, in order to determine

the growth potential of new enterprises. It can be seen from this that the sales of new enterprises exhibit high growth after startup.

**Fig. 3-1-14 Sales per enterprise after startup**

Sales of new enterprises exhibit high growth after startup compared with existing enterprises.



Source: Recompiled from Teikoku Databank, Ltd., COSMOS2 Enterprise Outline File.

- Notes: 1. Enterprises established before 1998 consist of enterprises whose sales in 1998-2009 are recorded in the File, and enterprises established in or after 1998 consist of enterprises whose sales from establishment to 2009 are recorded in the File.
- 2. Enterprises in finance and insurance are excluded.
- 3. Subsidiaries and enterprises classified as large enterprises at startup are excluded from the above.

**Case 3-1-3**

**A company that conducted highly detailed market analyses and achieved rapid high sales growth after startup**

Generation Pass Co., Ltd. conducts Internet sales and other businesses in Shinjuku City, Tokyo, with 19 employees and capital of ¥11 million.

The company was founded in 2002, and was initially mostly engaged in video production. Generation Pass entered the growing online sales market in 2006, opened the general shopping site "RECOMMENDO," and is growing quickly with about ¥1.3 billion of sales in 2010. When Generation Pass entered the online sales market, the company had virtually no one with any knowledge or experience of sales via the Internet.

With a conviction to work twice as hard as large corporate competitors, Generation Pass compiled detailed data on customer segments and the number of times each item on the site was viewed, implemented an effective SEO (search engine optimization) strategy, and focused on effectively introducing products that customers are likely to want. This has become the company's strength.

President Hiroaki Okamoto originally worked at a financial institution. He retired at age 30, went to the U.S., founded a company, and then studied marketing theory at Harvard Business School. After returning to Japan, he participated in the management of an IT company that was listed in 2000. He then established Generation Pass.

Generation Pass believes the online sales market will now grow along with the aging of society, as elderly people are becoming accustomed to using the Internet. The company aims at sales of ¥5.0 billion in five years time. They plan to expand their product offerings and business fields in line with market demand, and also intend to try wholesaling and in-house product manufacturing.



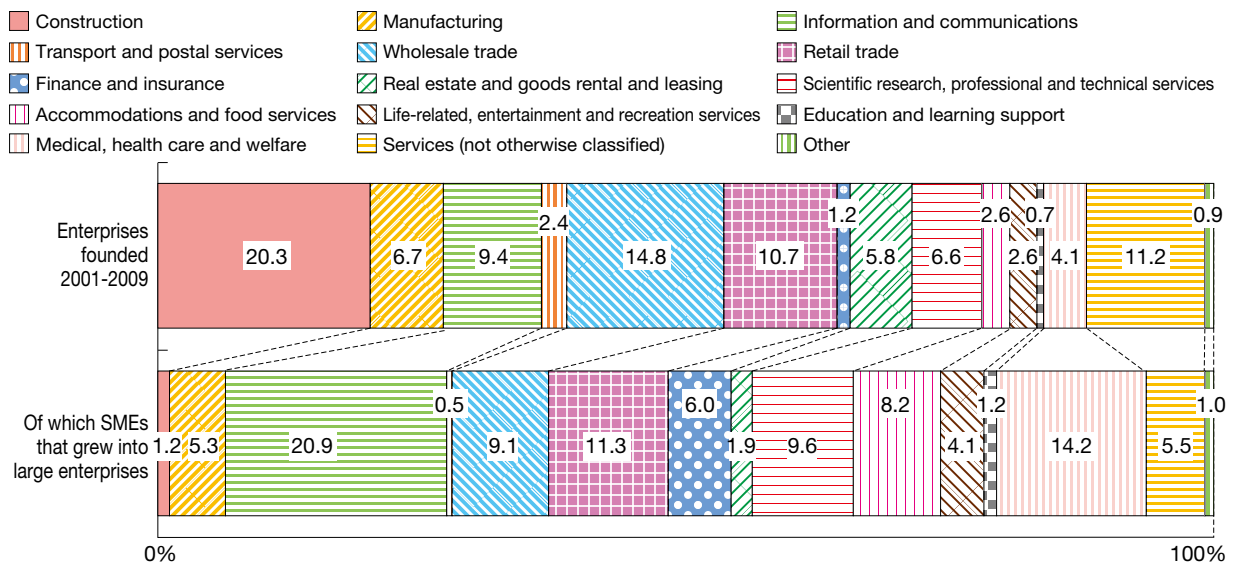
General shopping site "RECOMMENDO" operated by Generation Pass

In order to compare growth potential by industry, Fig. 3-1-15 shows that the industry makeup of enterprises founded between 2001 and 2009 that have grown from SMEs into large enterprises. Comparing this with the industry makeup of all enterprises founded between 2001 and 2009 reveals a preponderance of enterprises growing

into large enterprises in information and communications and medical, health care, and welfare. These are fields that also have high entry rates, indicating that large numbers of entrepreneurs enter industries with future potential and achieve high growth.

**Fig. 3-1-15 Industry makeup of enterprises that have grown from SMEs into large enterprises after startup**

High proportions of SMEs grow into large enterprises in information and communications, and medical, health care and welfare.



Source: Recompiled from Teikoku Databank, Ltd. *SPECIA Industry Survey and Analysis*.

Notes: 1. The above figures are for 416 of the 123,492 enterprises founded between 2001 and 2009 and recorded in the File that grew from SMEs into large enterprises.  
2. Government service (excluding not otherwise classified) and unclassifiable industries are excluded from the above.

● (2) Job creation by startups

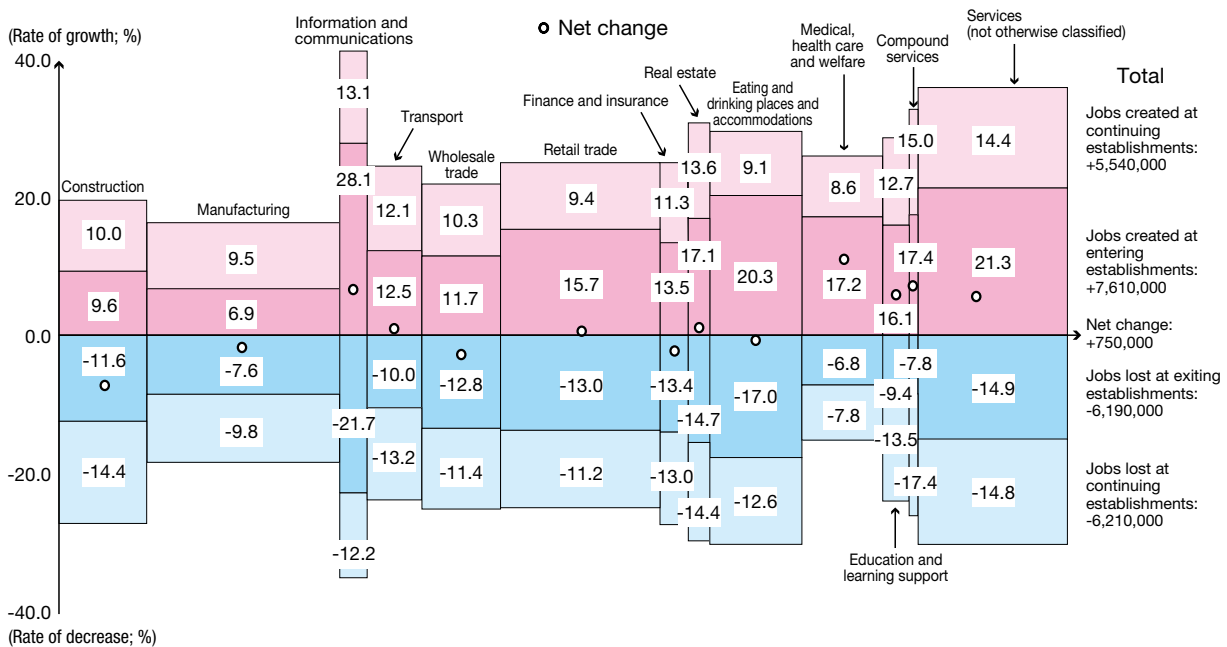
Above, we looked at how the continuous wave and rapid growth of new entrants stimulates economic renewal and contributes to the growth of the Japanese economy. Next, we discuss the role played by startups in job creation.

Fig. 3-1-16 breaks down the rate of change in employment by industry between 2004 and 2006 into jobs created at continuing business establishments, jobs created at entering business establishments, jobs lost at exiting business establishments, and jobs lost at continuing business establishments. Job changes at the subset of entering business establishments and exiting business establishments make a greater contribution to changes

overall than the continuing business establishments that make up the bulk of the total. Of particular note is that approximately 60% of the jobs created between 2004 and 2006 were generated by entering business establishments. Furthermore, in industries with high entry rates, such as information and communications, and medical, health care and welfare, jobs created by entering business establishments made a major contribution to job growth overall. However, a major contribution was also made by entering business establishments in livelihood-type industries, such as the retail trade, eating and drinking places, and accommodations. It is thus clear that startups play an important role in job creation.

**Fig. 3-1-16 Job changes at entering, exiting, and continuing business establishments (based on establishments, 2004-2006)**

Approximately 60% of the jobs created between 2004 and 2006 were generated by entering business establishments.



Source: Recompiled from MIC, *Establishment and Enterprise Census of Japan*.

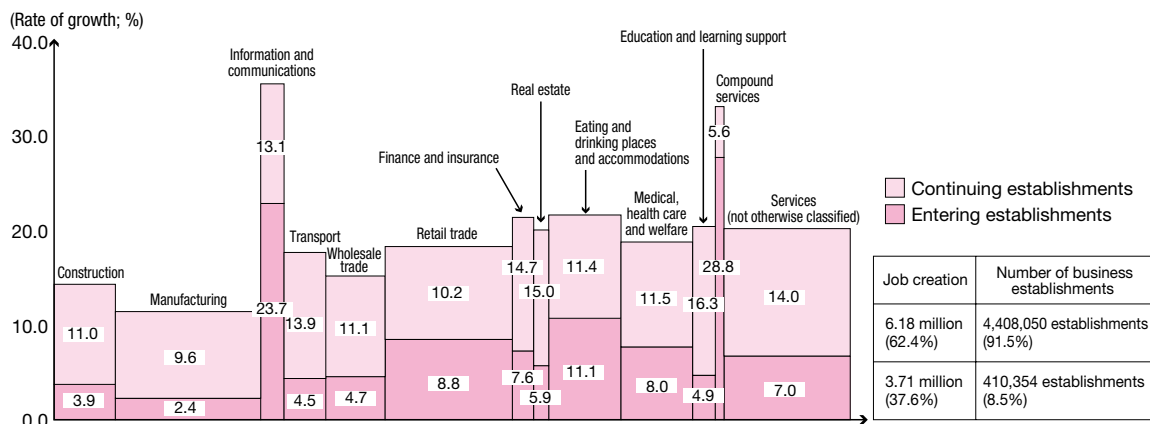
- Notes:
1. The horizontal axis indicates the proportion of employment at all business establishments (non-primary industry) at the beginning of the 2004 period accounted for by workers in each industry.
  2. Mining and electricity, gas, heat supply, and water are excluded due to the small number of workers in these industries.
  3. Entry and exit rates for business establishments include openings and closures of branches and plants, and openings and closures due to moves.

**Column 3-1-2 Calculation of job creation based on the MIC's *Economic Census: Basic Survey***

Column Figure 3-1-2 shows the changes in employment at entering and continuing business establishments from 2006 through 2009, calculated based on the new *Economic Census: Basic Survey*. The figure shows that 410,354 entering businesses establishments (equivalent to 8.5% of all business establishments in 2009) created new jobs for approximately 3.71 million workers (37.6% of all new jobs), while 4,408,050 continuing business establishments (91.5% of all business establishments in 2009) created new jobs for approximately 6.18 million workers (62.4% of all new jobs). This indicates that entering business establishments, in particular, generated increased employment.

**Column Fig. 3-1-2 Job creation by entering and continuing business establishments (based on establishments, 2006-2009)**

Employment is increasing at entering business establishments.



Sources: Recompiled from MIC, *Establishment and Enterprise Census of Japan* and *Economic Census: Basic Survey* (estimates calculated by SME Agency).

- Notes:
1. The horizontal axis indicates the proportion of employment at all business establishments (non-primary industry) at the beginning of the 2006 period accounted for by workers in each industry. The number of workers at the beginning of the period was calculated from the data of continuing and exiting business establishments.
  2. Mining and electricity, gas, heat supply, and water are excluded due to the small number of workers in these industries.
  3. Entry rate for business establishments include openings of branches and plants, and openings due to moves.
  4. The changes in employment are calculated for entering business establishments using the number of workers in 2009 and for continuing business establishments using the changes in employment at the establishments that can be linked to the 2006 *Establishment and Enterprise Census of Japan*. Because the number of continuing business establishments is limited to within the range of the *Establishment and Enterprise Census of Japan*, the increase in employment at continuing business establishments may be underestimated.
  5. Out of the total of 4,408,050 continuing business establishments, 1,085,387 establishments contributed to the creation of jobs.

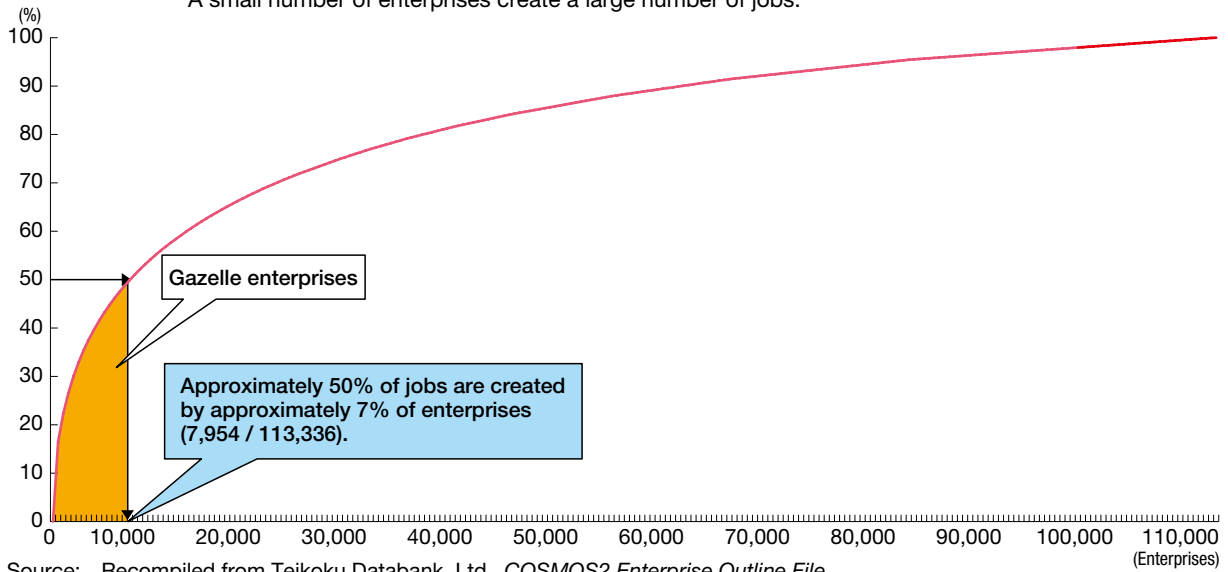
Having analyzed the creation of jobs at startup, we look next at job creation after startup. Dubbing the small number of enterprises with particularly high growth potential “gazelles,” the American economist David Birch has focused on their job creation capability. Below, we analyze the ages and industries of Japan’s gazelle enterprises.

Fig. 3-1-17 shows the cumulative contributions to job growth of 113,336 enterprises that employed more people in 2007 than in 2002, arranged in order of scale of job growth. This shows that approximately 50% of jobs were created by approximately 7% of enterprises. In other words, a large proportion of jobs are created by a very small proportion of enterprises.



**Fig. 3-1-17 Cumulative contributions to job growth (2002-2007)**

A small number of enterprises create a large number of jobs.



Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 Enterprise Outline File*.

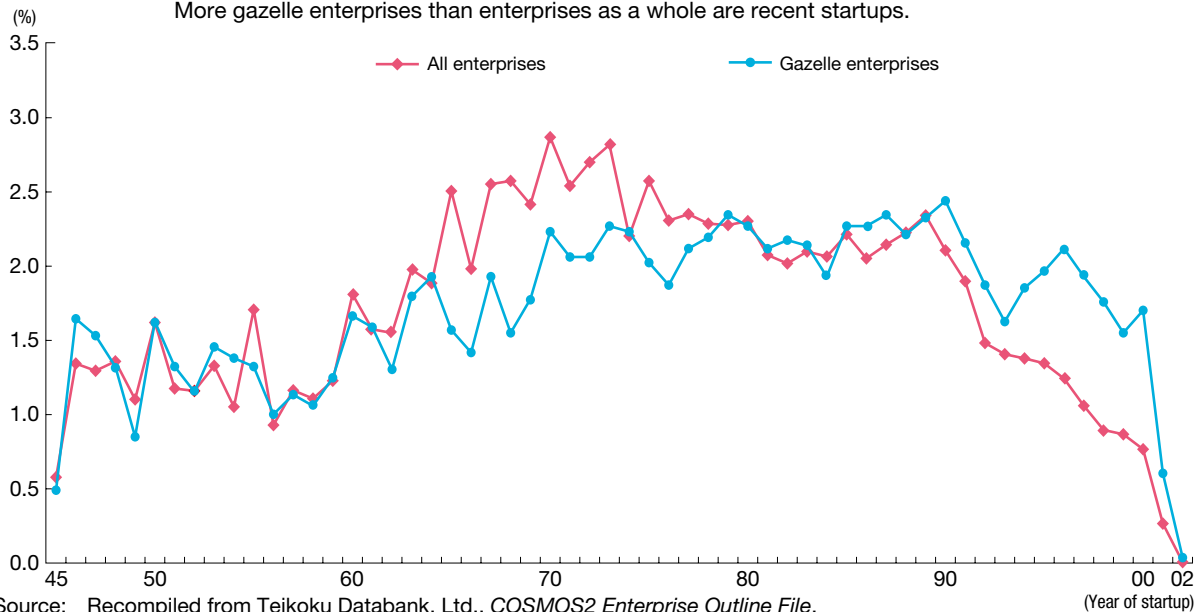
- Notes:
1. The above figures are for the 113,336 enterprises whose employment grew between 2002 and 2007.
  2. Cumulative contributions to job growth were calculated arranging enterprises in order of scale of job growth.
  3. Enterprises that engaged in M&As, divestitures, or business transfers and enterprises that are members of *keiretsu* groups are excluded.

Defining the enterprises that created the jobs exceeding 50% of the cumulative increase (consisting of the 7,954 enterprises that created at least 30 jobs in five years, equivalent to approximately 7.0% of all enterprises whose employment grew) as gazelles, we examine below their age and industry makeup. Distributions of all enterprises

in 2002 and gazelle enterprises by year of startup (since 1945) are shown in Fig. 3-1-18. This shows that gazelle enterprises have a younger age distribution than enterprises as a whole, which suggests that enterprises have greater job creation potential soon after startup.

**Fig. 3-1-18 Distribution of gazelle enterprises' year of founding**

More gazelle enterprises than enterprises as a whole are recent startups.



Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 Enterprise Outline File*.

Note: The distributions for each year of startup of gazelle enterprises and enterprises recorded in the File in 2002 are compared.

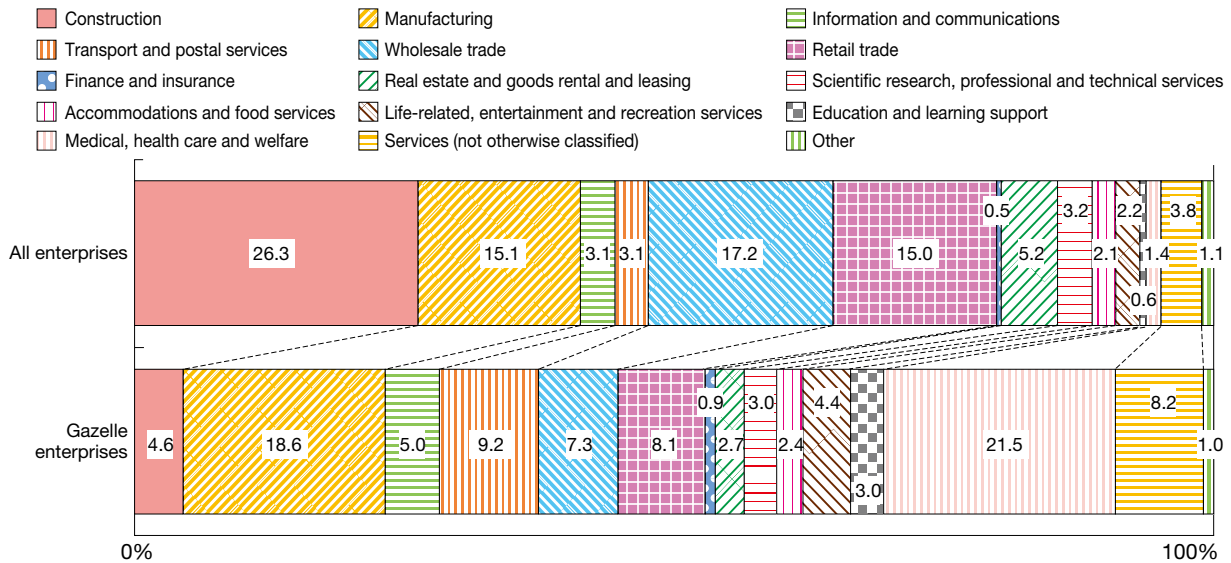
Next, regarding the industry makeups of enterprises as a whole and gazelle enterprises, shown in Fig. 3-1-19, it can be seen that gazelle enterprises are far more heavily

represented in medical, health care and welfare field than enterprises as a whole.<sup>8)</sup>

8) Also apparent is that gazelle enterprises are to be found not only in the labor-intensive medical, health care and welfare field, but also in fields such as information and telecommunications that do not necessarily depend so much on large labor inputs.

**Fig. 3-1-19 Industry makeup of gazelle enterprises**

Gazelle enterprises are more heavily concentrated in medical, health care, and welfare than enterprises as a whole.



Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 Enterprise Outline File*.

- Notes: 1. The industry makeups of gazelle enterprises and enterprises recorded in the File in 2002 are compared.
- 2. Government service (excluding otherwise classified) and unknowns are excluded from the above.

Employment thus grows at and immediately following startup, evidencing the significance of startups to job creation. The tsunami and nuclear crisis following the earthquake have forced large numbers of enterprises in the affected regions to suspend or close down their businesses,

resulting in heavy job losses. In the face of such severe difficulties, entrepreneurs can make a major contribution to rebuilding the Japanese economy by boldly forming startups and rebuilding businesses to maintain and create employment.

**Case 3-1-4**

**A company which developed comprehensive outsourcing services for businesses and generated employment for 300 workers shortly after its startup**

TKP Corporation, located in Chuo City, Tokyo, uses IT to provide comprehensive outsourcing services to businesses. The company was founded in 2005. It has 300 employees and capital of ¥287.795 million.

President Takateru Kawano was involved in the launch of an Internet financial organ when he worked at a general trading company. He founded TKP Corporation with the goal of using IT technology in actual operations. The company's rental meeting room business, which began from a single floor in a building in the Roppongi district of central Tokyo, has expanded to the operation of more than 500 meeting rooms in Tokyo, Osaka and other major cities nationwide. In total, the meeting rooms have been used by over 70,000 companies and 1.5 million people. TKP Corporation has expanded into many other businesses branching out from rental meeting rooms. The company gained a license to operate as a travel agency and began offering one-stop reservations for meeting rooms, lodgings and business travel arrangements. They provide training programs, arrange meals, rent used office equipment, operate call centers and conduct payroll works under consignment. TKP Corporation has entered one business field after another and broadly developed as a comprehensive outsourcing services provider. The company which President Kawano started alone has grown as its businesses expanded to employ about 300 workers just five years after it was founded in 2005.

The company's rental meeting rooms business limited initial investment by not owning real estate, and its enhanced financial strength led to subsequent business deployment and development. While working for further expansion in Japan, TKP Corporation is now preparing to develop business in major cities overseas including New York and Shanghai.



The employees of TKP Corporation, which grew to employ about 300 in five years

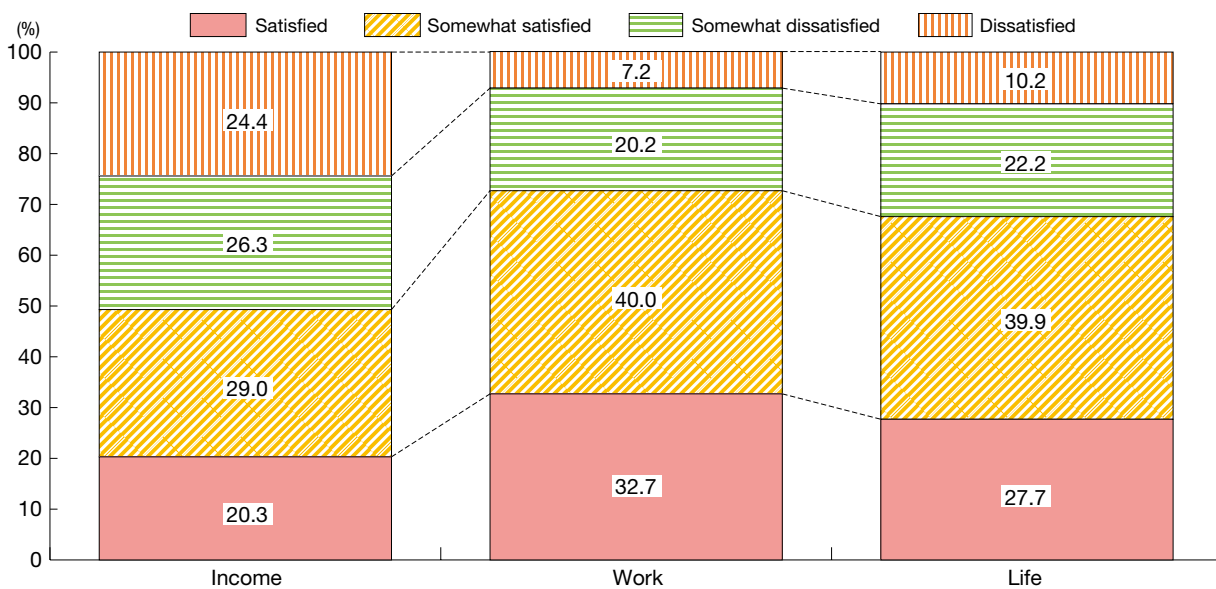
● (3) Social diversity created by startups

We outlined above how considerable employment is created soon after as well as at startup. Another contribution that startups make to the economy and society, however, is their enablement of more diverse lifestyles and ways of work. People choose to start in business for a variety of motives and purposes, and not simply because they want higher incomes. Many startup entrepreneurs may, for example, be seeking an outlet for self-realization or the freedom to choose their working hours, or the opportunity to contribute to society or make

better use of their specialist skills and knowledge.<sup>9)</sup> When asked about their level of satisfaction with their current incomes, work, and life, moreover, many entrepreneurs express dissatisfaction with their incomes but satisfaction with their work and lives (Fig. 3-1-20). It thus appears that, unable to find an outlet for their personalities and abilities in their pre-startup jobs, many entrepreneurs choose to start up in business to achieve better lifestyles and ways of working. While these activities of entrepreneurs do not show up in statistics on economic growth, they do enhance and increase diversity in society.

**Fig. 3-1-20 Entrepreneurs' satisfaction with income, work, and life**

Although many entrepreneurs feel dissatisfied with their incomes, many are satisfied with their work and lives.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

*The 2010 White Paper on Small and Medium Enterprises in Japan* observed that factors including diversifying attitudes to work, changes in industrial structure, economic globalization, and deregulation of the labor market are expanding the diversity of the labor force and increasing employment of women and older people at SMEs.<sup>10)</sup> Here, therefore, we analyze the startup environment facing women and older people, and discuss how people who have lacked employment opportunities in conventional environments are creating more diverse lifestyles and ways of working for themselves by starting up in business.

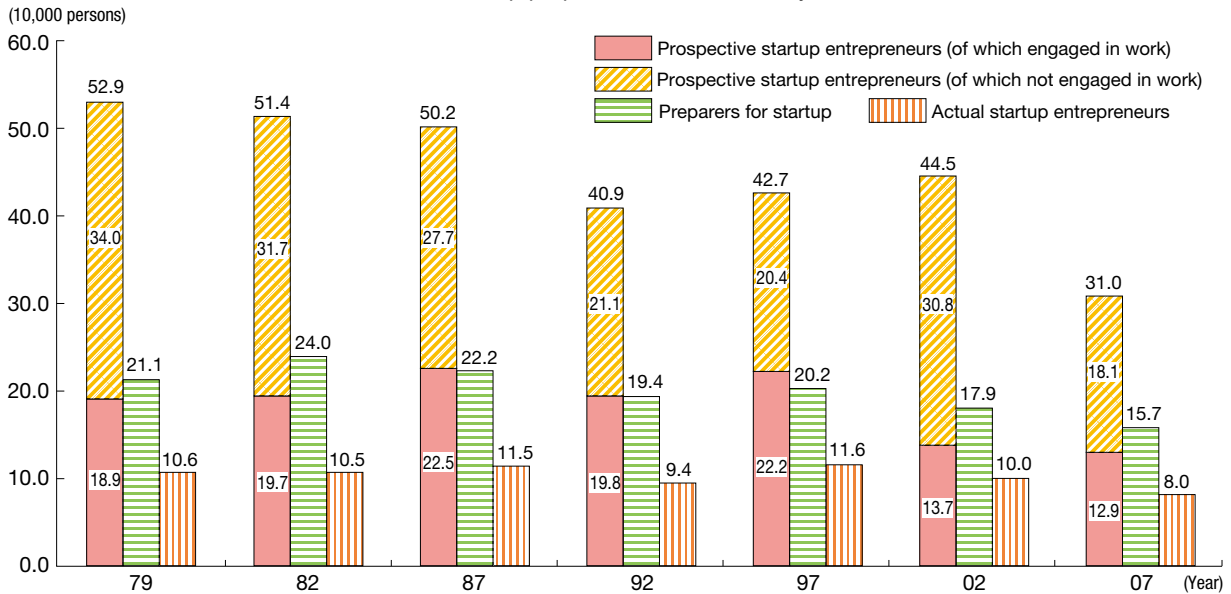
We begin by outlining the environment faced by female entrepreneurs. Fig. 3-1-21 shows the key figures in startups by women. While the number of prospective startup entrepreneurs is presently on the decline, there were still approximately 300,000 female prospective startup entrepreneurs in 2007. Compared with the combined totals for men and women, (Fig. 3-1-6), women not engaged in work account for a large proportion of female prospective startup entrepreneurs. It may also be seen that there have constantly been around 100,000 startup entrepreneurs for almost 30 years now.

9) The motives and purposes behind startups are described in a later section.

10) See pp. 131-134 of *2010 White Paper on Small and Medium Enterprises in Japan*.

**Fig. 3-1-21 Key figures in startups by women**

There were approximately 300,000 female prospective startup entrepreneurs in the latest year shown, and the number of female startup proprietors has consistently remained around 100,000.



Source: Recompiled from MIC, *Employment Status Survey*.

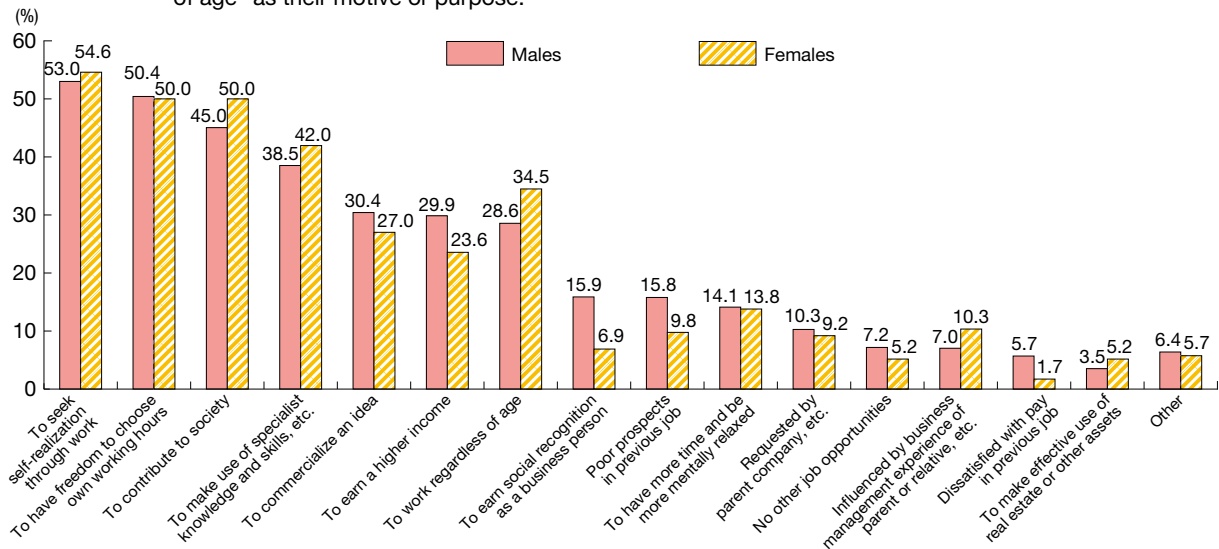
- Notes:
1. "Prospective startup entrepreneurs (of which engaged in work)" consists of persons engaged in work and wishing to change jobs who responded "want to start own business."
  2. "Prospective startup entrepreneurs (of which not engaged in work)" consists of persons not engaged in work who responded "want to start own business."
  3. "Preparers for startup" consists of prospective startup entrepreneurs who responded "looking (for work)" or "preparing to start business."
  4. "Actual startup entrepreneurs" consists of persons who changed or found new employment in the past years and are now self-employed (excluding homeworkers).

Next, we analyze female entrepreneurs in detail in comparison with males based on the results of the *Startup Survey*. Starting with startup motives and purposes,

women are more likely than men to want "to contribute to society" and "to work regardless of age" (Fig. 3-1-22).

**Fig. 3-1-22 Startup motives and purposes by gender**

Female entrepreneurs are more likely than men to give "to contribute to society" and "to work regardless of age" as their motive or purpose.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

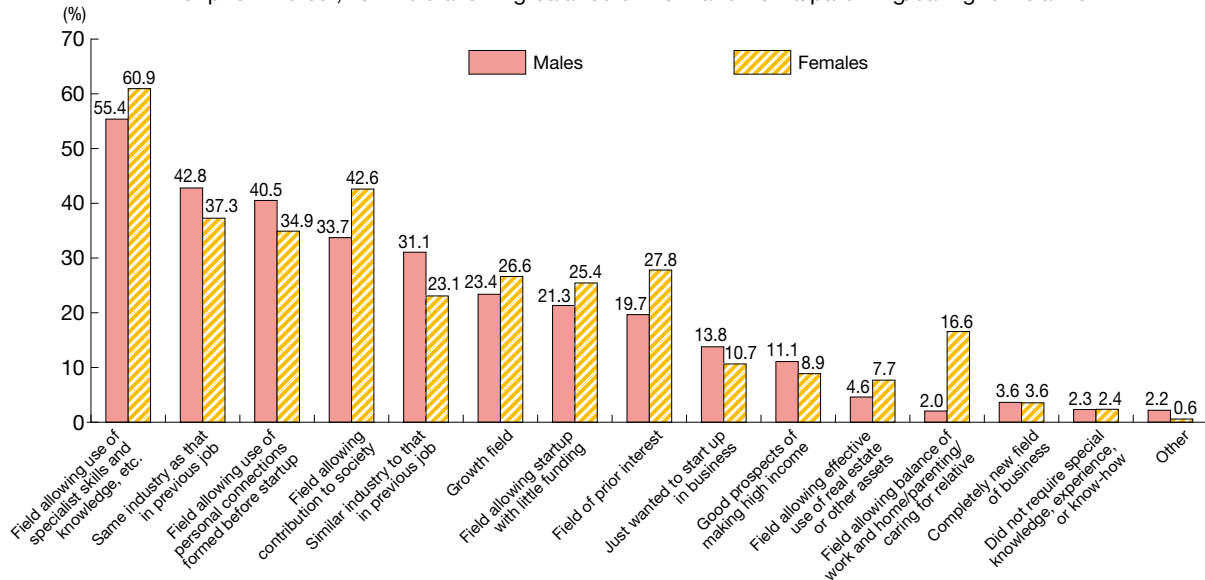
Note: Totals do not necessarily sum to 100 due to multiple responses.

Next, regarding reasons for choice of field of business to start up in, higher proportions of female than male entrepreneurs said “field allowing contribution to society,”

“field of prior interest,” and “field allowing balance of work and home/parenting/caring for relative” (Fig. 3-1-23).

**Fig. 3-1-23 Reasons for choice of field of business by gender**

Higher proportions of female than male entrepreneurs said “field allowing contribution to society,” “field of prior interest,” or “field allowing balance of work and home/parenting/caring for relative.”



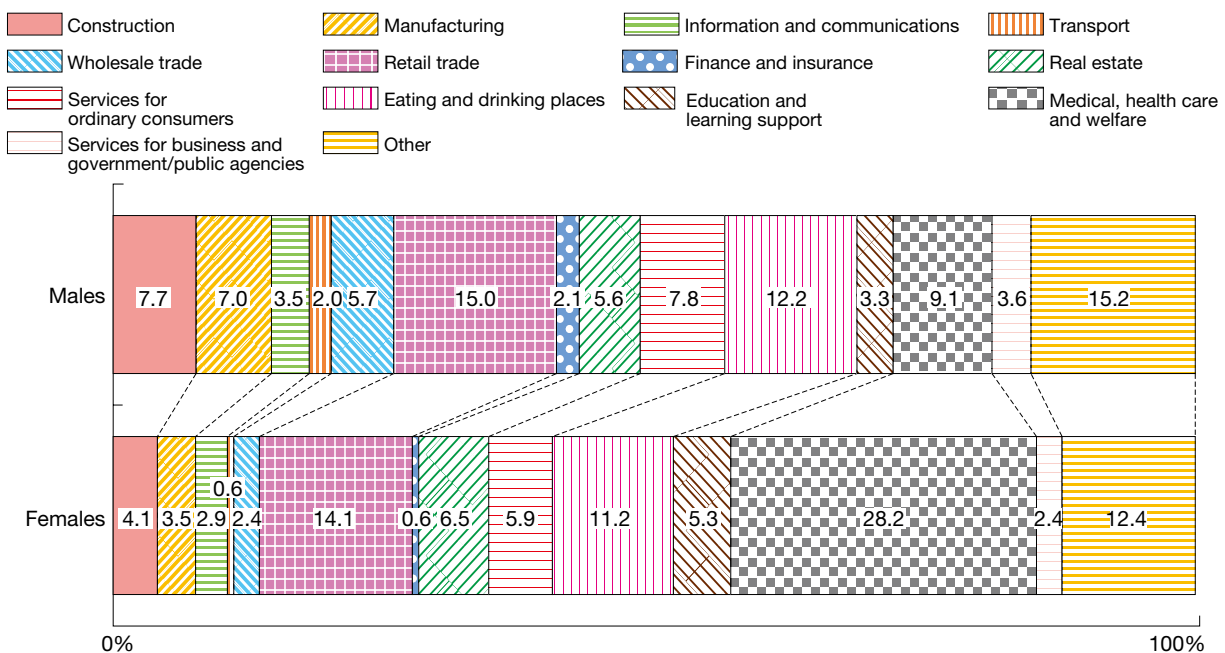
Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

Female entrepreneurs can also be seen to be playing an active role in industries with high entry rates. For example, there is an overwhelming greater proportion of women

starting up in the medical, health care and welfare field than men, and the proportion of female entrepreneurs in education and learning support is also high (Fig. 3-1-24).

**Fig. 3-1-24 Breakdown of startup industries by gender**

Proportionately more women than men choose to start up in medical, health care and welfare and in education and learning support.



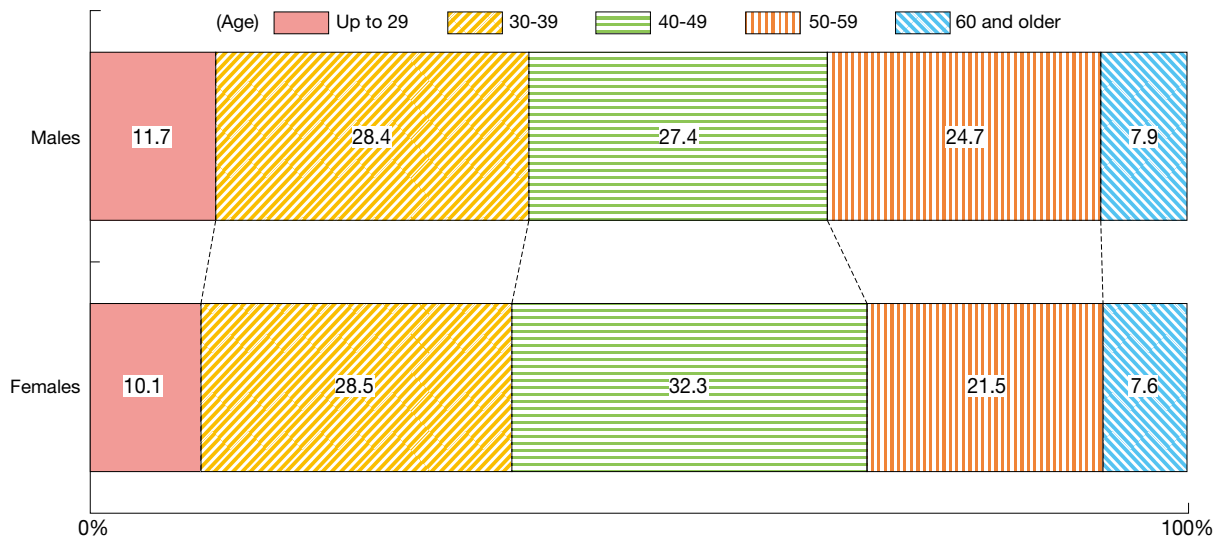
Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

Lastly, we look at the age composition of entrepreneurs by gender. This reveals that a higher proportion of female entrepreneurs than male entrepreneurs are aged 30-49 (Fig. 3-1-25). While the proportion of female regular employees among the population aged 15 and older dips as some women leave the labor market due to marriage or having and raising a child, there is no such decline among

the self-employed, who have the freedom to choose their own working hours (Fig. 3-1-26). It may be inferred from this that, for women who find it difficult to work as regular employees due to marriage or having and raising a child, choosing to start up in business can allow them to work in a manner that suits their own particular life stage.

**Fig. 3-1-25 Age composition of entrepreneurs by gender**

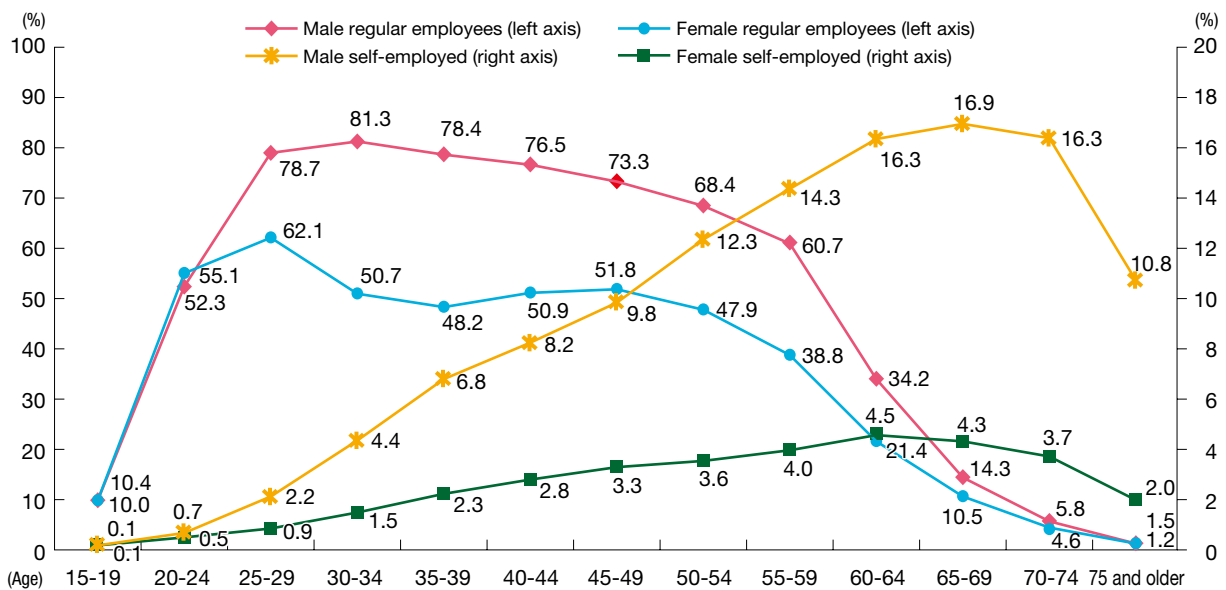
A higher proportion of female entrepreneurs than male entrepreneurs are aged 30-49.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

**Fig. 3-1-26 Proportions of regular employees and self-employed by gender**

Although the proportion of female regular employees dips, no trend is evident among the female self-employed.



Source: MIC, *Employment Status Survey*.

- Notes: 1. Proportions of "total" accounted for by regular employees and self-employed.
- 2. "Self-employed" does not here include homeworkers.

It may be surmised from the above that, having had children who have grown up somewhat, women embark on startups in search of new avenues of activity in fields that allow them to contribute to society and make use of their own experience (of homemaking, parenting, caring for elderly relatives, and so on) while balancing business and family life. Given the tendency in Japan for the female

employment rate to fall around the time of having and raising children, startups provide particularly significant opportunities for women with experience of having and raising children to find outlets for their own activities that take advantage of their perspectives as mothers and homemakers.<sup>11)</sup>

### Case 3-1-5

### A company that designs and sells goods for raising children based on the founder's experience as a mother

Okinawa Kosodate-Ryouhin Co., Ltd. is a company based in Naha City, Okinawa Prefecture founded in 2004 which designs and sells goods for raising children with three employees and ¥5 million in capital.

President Kaori Yamamoto was involved with traditional Okinawa crafts and textiles product development and with shop openings at her former company. As a hobby, she began developing products for raising children based on her own experience as a mother. In 2004, she went independent and began to design and sell safe goods for raising children as well as products that make use of local Okinawan resources. Okinawa Kosodate-Ryouhin's "plan to develop everyday goods that children can safely put in their mouths," which was selected as a 2009 Okinawa Industry Promotion Public Corporation "Okinawa-style business support fund project," uses local Ryukyu pine and Japanese alder to develop lunch boxes and other daily goods. The company focuses on developing safe, good quality, and natural products.

While President Yamamoto modestly says she took on a business of suitable size, she handled the procedures to establish the company herself using reference books, and incorporated in February 2010 to increase transactions with trading companies. In October 2010, Okinawa Kosodate-Ryouhin's plan to use Okinawan raw materials to develop cosmetics, miscellaneous goods and food products that are safe for mothers and children and develop sales routes was certified as a "regional industry resources use business plan" by METI, and further development is expected.

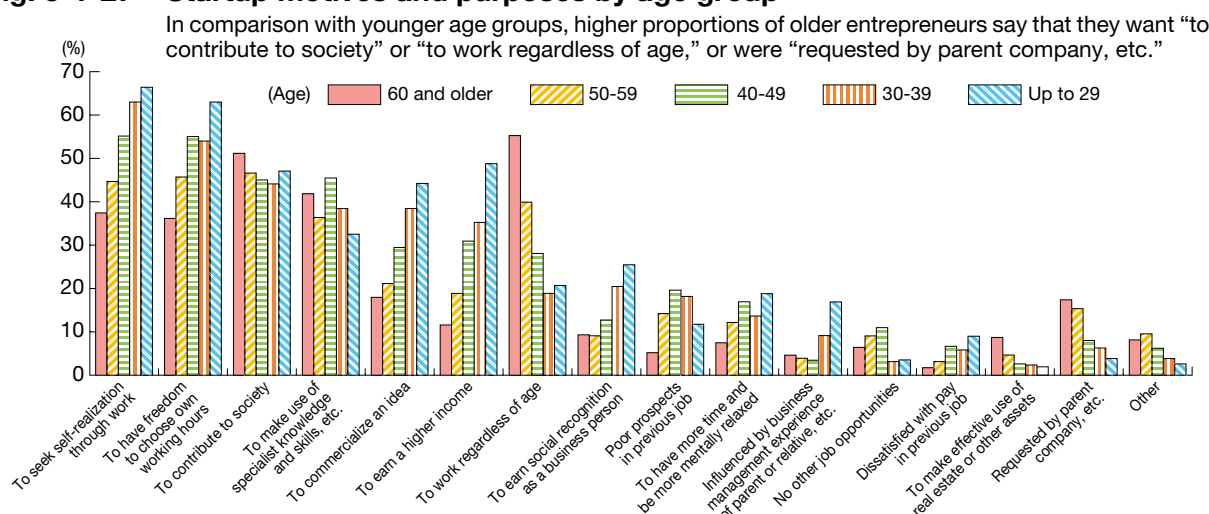


Lunch box made from Ryukyu pine, with a focus on child safety

Secondly, we examine the state of startups by older people<sup>12)</sup> based on the results of the *Startup Survey*. A breakdown of startup motives and purposes by age group reveals that, in comparison with younger age groups,

higher proportions of older entrepreneurs say that they want "to contribute to society" or "to work regardless of age," or were "requested by parent company, etc." (Fig. 3-1-27).

**Fig. 3-1-27 Startup motives and purposes by age group**



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

11) JFC offers "support funds for female, young, and senior citizen entrepreneurs." These consist of loans at preferential rates for women, young people (under the age of 30), and older people (aged 55 and older) within five years of first-time startup. Associations and chambers of commerce and industry also provide "startup" classes for women and others interested in starting up in business. These are taught by management consultants, SME consultants, and experienced entrepreneurs, and are designed to teach participants how to prepare for starting a business and the practicalities of tax and legal matters.

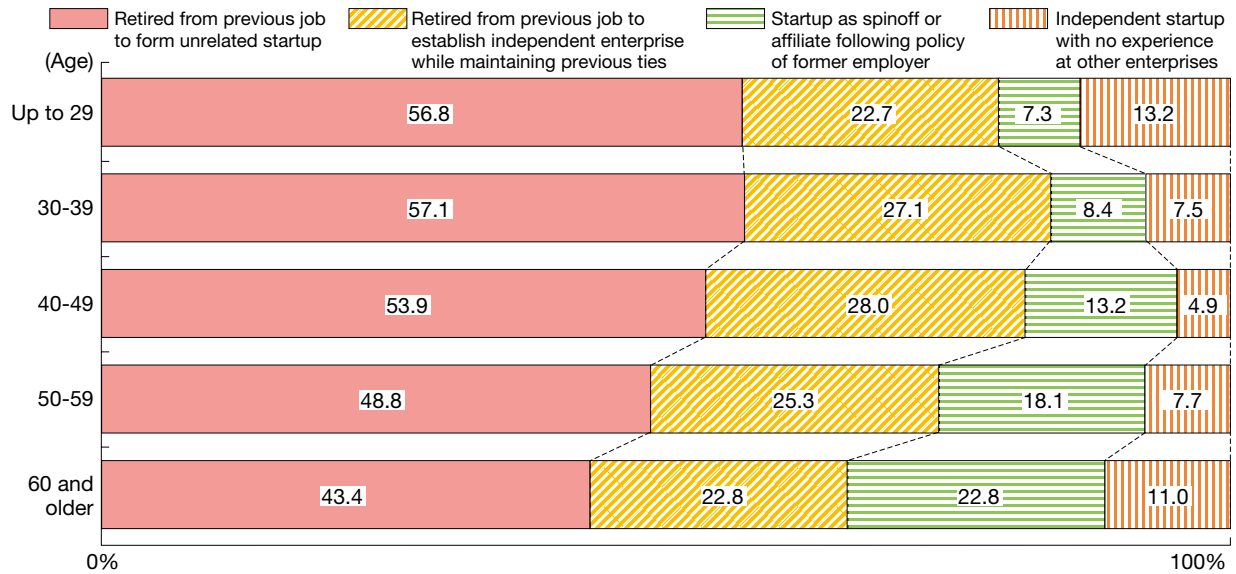
12) "Older people" here means people aged 60 and older.

Regarding the circumstances of startup, relatively high proportions of enterprises responded that they were a “startup as spinoff or affiliate following policy of former employer” or an “independent startup with no experience at other enterprises” (Fig. 3-1-28). In comparison with younger age groups, older entrepreneurs are thus

characterized by the high proportions of (a) those who start their business as a spinoff or affiliate of a former employer having first gained experience there, and (b) those who take a completely different direction in life by starting up independently in a new field.

**Fig. 3-1-28 Circumstances of startup by age group**

High proportions of older entrepreneurs say that they were a “startup as spinoff or affiliate following policy of former employer” or an “independent startup with no experience at other enterprises.”



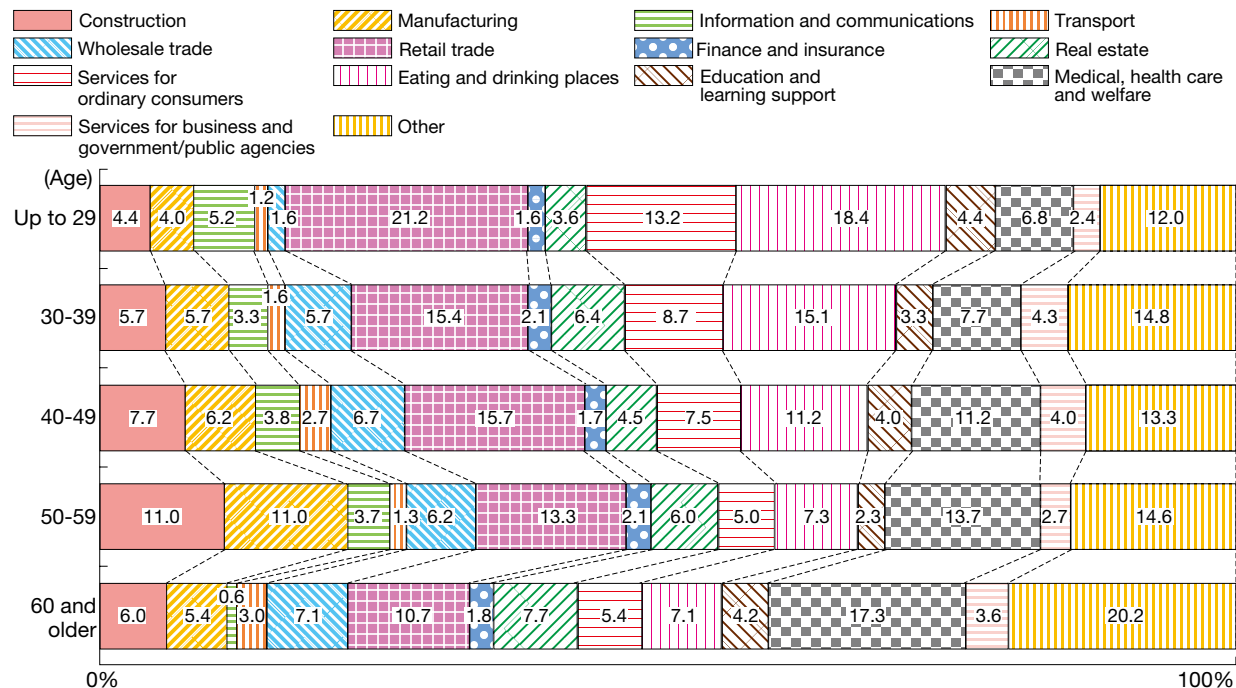
Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

Analyzing the industry makeups of startups by entrepreneur’s age group reveals a marked preponderance of startups by older people in the medical, health care

and welfare field, which suggests that they are providing services for older people by utilizing their own insights of this age group (Fig. 3-1-29).

**Fig. 3-1-29 Industry makeup of startups by age group**

There are markedly more startups by older people in the medical, health care and welfare field.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.



The above results suggest that, given the helm of spinoffs or affiliates by former employers who value their experience or seeking to carry on working regardless of

age, older people find that starting up in business gives them a platform to keep themselves active.

### Case 3-1-6

#### An entrepreneur who used his personal network from his former job to secure superior elderly staff and give them purpose

Jinzai Center Yuzuriha Co., Ltd., located in Minato City, Tokyo, is a company with nine employees and capital of ¥10 million that uses former employees of large corporations to proctor examinations and correct answer sheets from a correspondence course for individuals working at financial institutions.

President Minoru Honda was engaged in life planning and consultation for salaried employees at his former job in a corporation. In that position, he realized that he wanted to provide work to the elderly to give them purpose in life. At the age of 55, he took over the examination proctoring works and founded his businesses as a spinoff from his former corporation.

As a rule, Jinzai Center Yuzuriha only employs people introduced from President Honda's personal network, centered on those with experience as managers at large corporations, and the company secures a large number of superior personnel. In particular, since the work of correcting answer sheets from a correspondence course for individuals working at financial institutions requires specialized financial knowledge, Jinzai Center Yuzuriha has differentiated itself from competitors by securing a large number of former city bank and trust bank workers who reside in the Tokyo metropolitan area.

As employment practices change with the advent of the aging society, many people will keep working through age 65. Jinzai Center Yuzuriha mostly registers employees in their late 60s, and has an age limit of 70. President Honda says that "When employees reach 70, we want them to give up the path to the next person and enjoy their lives." Jinzai Center Yuzuriha presently has over 2,000 registered workers. The company is expected to continuing generating employment opportunities and giving purpose to senior citizens.



Jinzai Center Yuzuriha employees at an examination registration desk and correcting correspondence course answer sheets

This overview of the actual state of startups by women and older people has shown that, by choosing to start up in business, women and older people who would not otherwise have ample opportunities to find employment and apply their abilities under Japanese employment practices are able to explore new avenues of activity for themselves. In Japan, there used to be a tendency to want to work within a large corporate organization. By choosing to start up in business and creating one's own platform for

activity, however, it is possible to gain opportunities to achieve self-realization, have the freedom to choose one's working hours, and demonstrate one's abilities that are not so readily available when one is an employee. By thus broadening the range of choices open to people, startups not only contribute to the economy and society, but also enhance individuals' lives and work and make possible greater socioeconomic diversity.

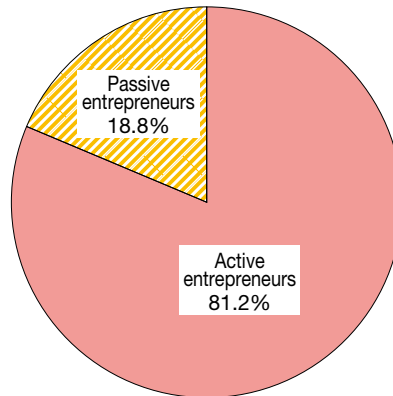
### [3] Obstacles to promoting startups and responses

To summarize the analysis thus far, we have seen how startup activity in Japan stimulates social and economic renewal, sustains economic growth, and generates social diversity. With the Japanese economy in the midst of a long-term slump, encouraging startup activity offers a vitally important means of regenerating the economy and brightening its future prospects. In this subsection, we analyze in detail the current state of startups in Japan relying mainly on the findings of the *Startup Survey* conducted in December 2010. Having shed light on the state of startups and identified some of the problems faced, we proceed to discuss what steps are required to promote startups, and what is necessary to ensure startups' success.

#### ● Startup motives and purposes

People become entrepreneurs for all kinds of motives and purposes. Grouping entrepreneurs according to motive and purpose of startup, however, we can classify them broadly into the following two groups: (1) "active entrepreneurs" who start up in business for active reasons, such as in order to increase their incomes, achieve self-realization, have the freedom to choose their working hours, or contribute to society; and (2) "passive entrepreneurs" who start up in business for negative reasons, such as simply in order to earn a living. The *Startup Survey* indicates that over 80% of entrepreneurs may be classified as active entrepreneurs, far exceeding the 20% or so who are passive entrepreneurs (Fig. 3-1-30).

**Fig. 3-1-30 Types of entrepreneurs**  
Over 80% of entrepreneurs are active entrepreneurs



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

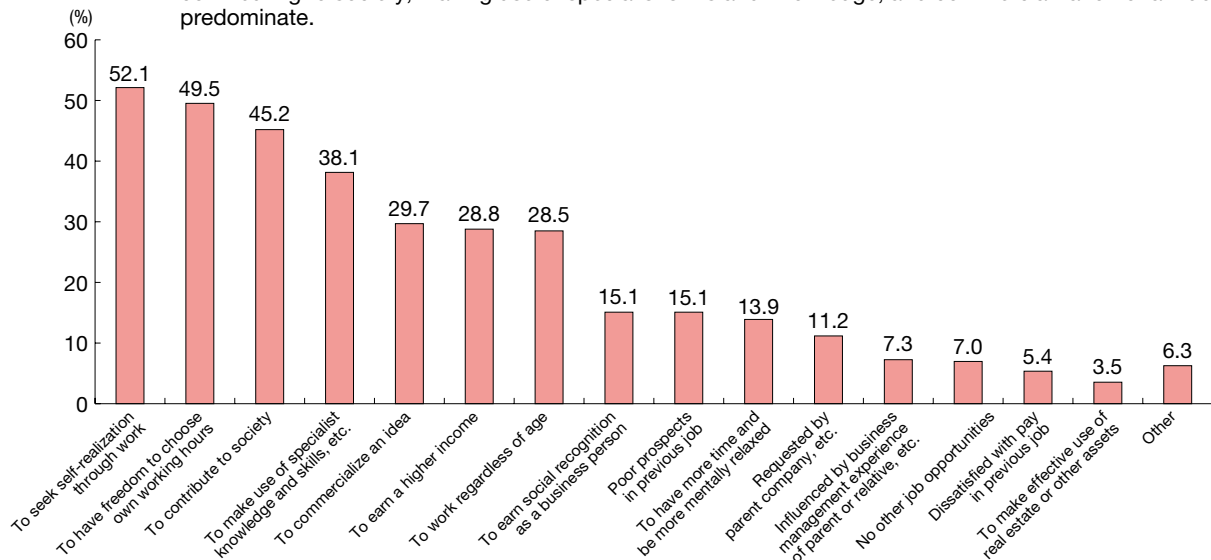
- Notes:
1. Based on respondents' choice of startup motive or purpose that most applied to them.
  2. "Active entrepreneurs" are individuals who startup in business for positive reasons, such as in order to increase their incomes, achieve self-realization, have the freedom to choose their working hours, or contribute to society. "Passive entrepreneurs" are individuals who started up in business for negative reasons, such as simply in order to earn a living.

Looking at startup motives and purposes in further detail, we find the most popular reasons to include self-realization, having the freedom to choose one's working hours, contributing to society, making use of specialist skills or knowledge, and commercialization of an idea. It

can thus be observed that entrepreneurs create platforms for themselves to make the most of their personalities and abilities or to contribute to society and so forth through their decisions to startup up in business (Fig. 3-1-31).

**Fig. 3-1-31 Startup motives and purposes**

Motives and purposes such as self-realization, having the freedom to choose one's working hours, contributing to society, making use of specialist skills and knowledge, and commercialization of an idea predominate.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.  
Note: Totals do not necessarily sum to 100 due to multiple responses.

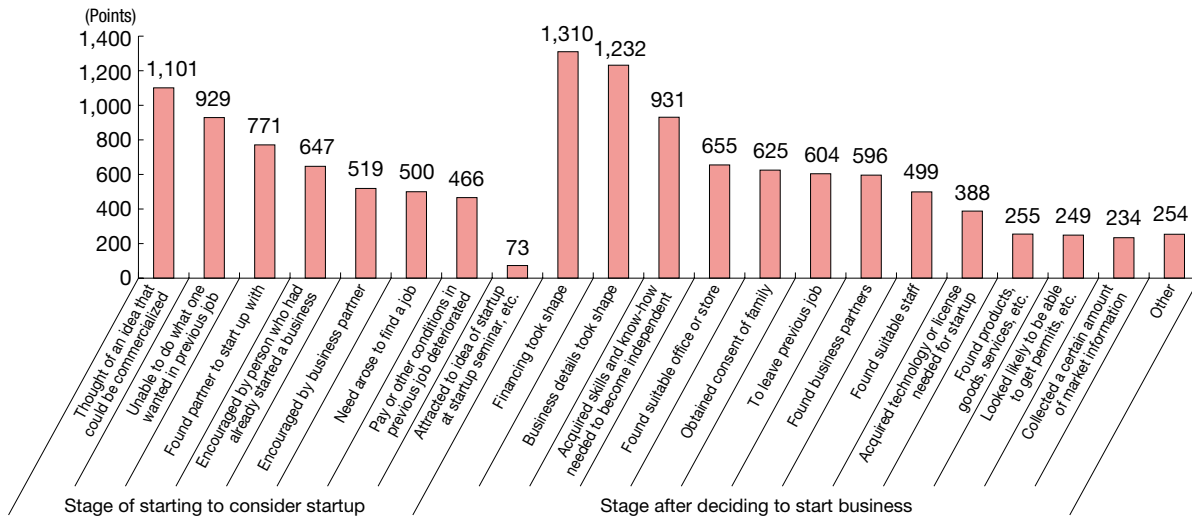
● **Triggers for startups**

A detailed analysis of the processes that give rise to entrepreneurs allows us to divide the period up to startup into two stages: a first stage at which entrepreneurs first begin to think about startup, and a second stage once they have resolved to start up in business. Fig. 3-1-32 depicts the "triggers" that lead individuals to embark on startup at each stage. The commonest trigger for beginning to think about starting up in business is "thought of an idea that could be commercialized," followed by "unable to do what

one wanted in previous job." Many people also resolved to start up in business following other trigger events, including "found partner to start up with," "encouraged by person who had already started a business," "encouraged by business partner," "need arose to find a job," and "pay or other conditions in previous job deteriorated." At the stage after resolving to start a business, common triggers for actually embarking on startup are "financing took shape," "business details took shape," and "acquired skills and know-how needed to become independent."

**Fig. 3-1-32 Triggers for embarking on startup**

While common triggers at the stage of first thinking about starting a business are “thought of an idea that could be commercialized” and “unable to do what one wanted in previous job,” common triggers at the stage of actually embarking on startup are “financing took shape” and “business details took shape.”



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

Note: The results were calculated by scoring in order of ranking: 3 points for first, 2 points for second, and 1 point for third.

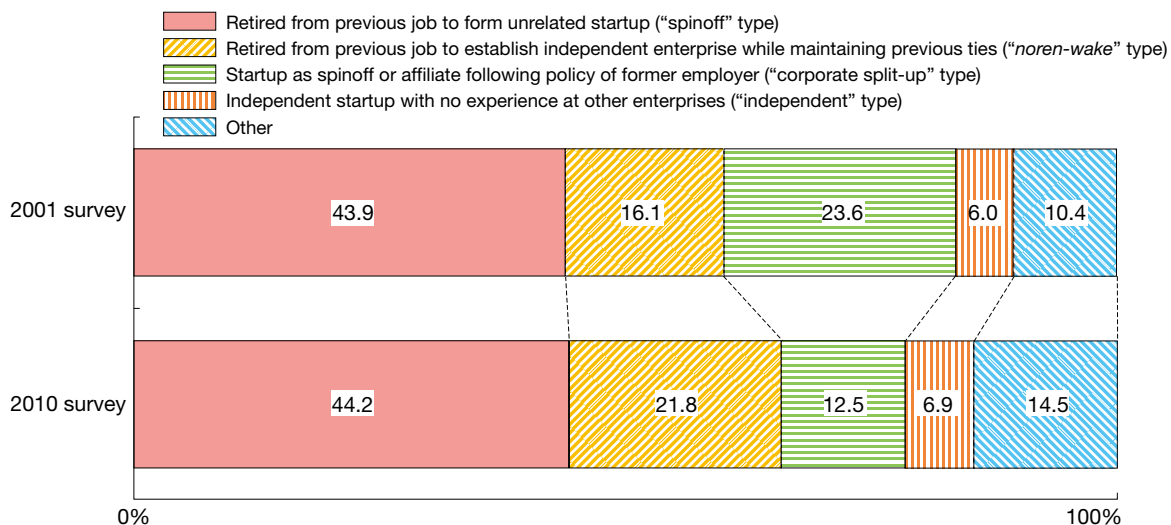
**● Circumstances and forms of startups**

Regarding the circumstances of startups, Fig. 3-1-33 shows that many startups are “spinoffs” formed when an entrepreneur “retired from previous job to form unrelated startup.” By comparison with the findings of the *Fact-finding Survey of the Environment for Startups* conducted by the SME Agency in December 2001,<sup>13)</sup> there appears to have been an increase in “*noren-wake*”

type startups (based on the traditional Japanese practice of setting up in business with the blessing of one’s former employer), in which an entrepreneur “retired from previous job to establish independent enterprise while maintaining previous ties,” indicating that entrepreneurs are increasingly venturing out on their own by applying the experience and personal connections developed at their previous places of employment.

**Fig. 3-1-33 Circumstances of startup**

While many startups are “spinoffs,” “*noren-wake*” type startups have also been on the rise in recent years.



Sources: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency; SME Agency, *Fact-finding Survey of the Environment for Startups* (December 2001).

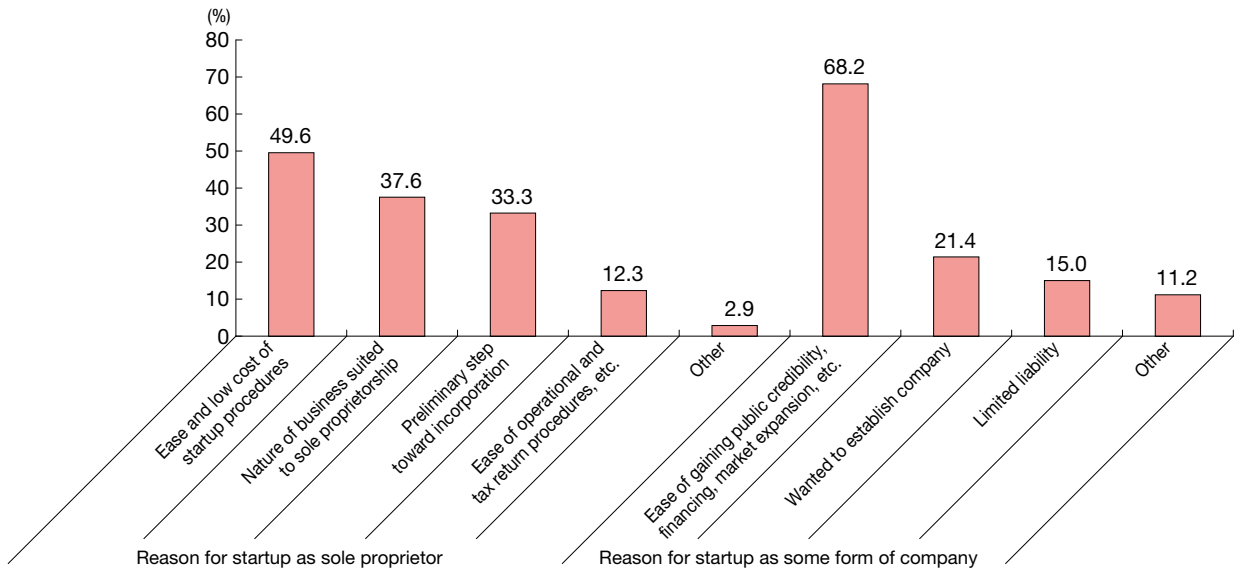
13) Conducted by the SME Agency in December 2001. It consisted of a questionnaire survey of 15,000 enterprises founded since 1991. The response rate was 33.7%.

Regarding the forms of startups, Fig. 3-1-34 shows that many entrepreneurs choose to start up either as sole proprietorships for reasons such as “ease and low cost of startup procedures,” “nature of business suited to sole proprietorship,” and “preliminary step toward incorporation,” or as some form of company because of the “ease of gaining public credibility, financing, market expansion, etc.”

to sole proprietorship,” and “preliminary step toward incorporation,” or as some form of company because of the “ease of gaining public credibility, financing, market expansion, etc.”

**Fig. 3-1-34 Reasons for choice of form of startup**

Many entrepreneurs choose to start up either as sole proprietorships for reasons such as “ease and low cost of startup procedures,” or as some form of company because of the “ease of gaining public credibility, financing, market expansion, etc.”



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

Notes: 1. 25.7% responded “startup as sole proprietorship” and 74.3% responded “startup as some form of company.”  
2. Totals do not necessarily sum to 100 due to multiple responses.

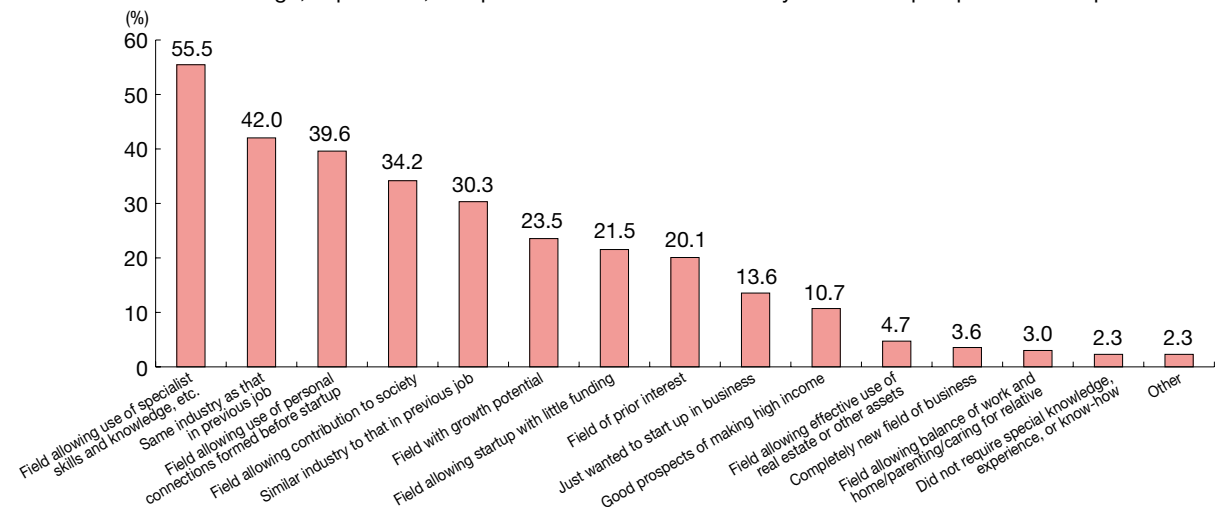
● **Reasons for choice of field of business**

Regarding the reasons for choice of field of business, Fig. 3-1-35 shows that many entrepreneurs said that they chose a “field allowing use of specialist skills and knowledge,” “same industry as that in previous job,” or

“field allowing use of personal connections formed before startup.” In other words, they chose a field of business in which they could make use of the specialist skills, knowledge, experience, and personal connections that they had developed prior to starting up.

**Fig. 3-1-35 Reasons for choice of field of business**

Many entrepreneurs chose a field of business in which they could make use of specialist skills, knowledge, experience, and personal connections that they had developed prior to startup.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

Note: Totals do not necessarily sum to 100 due to multiple responses.

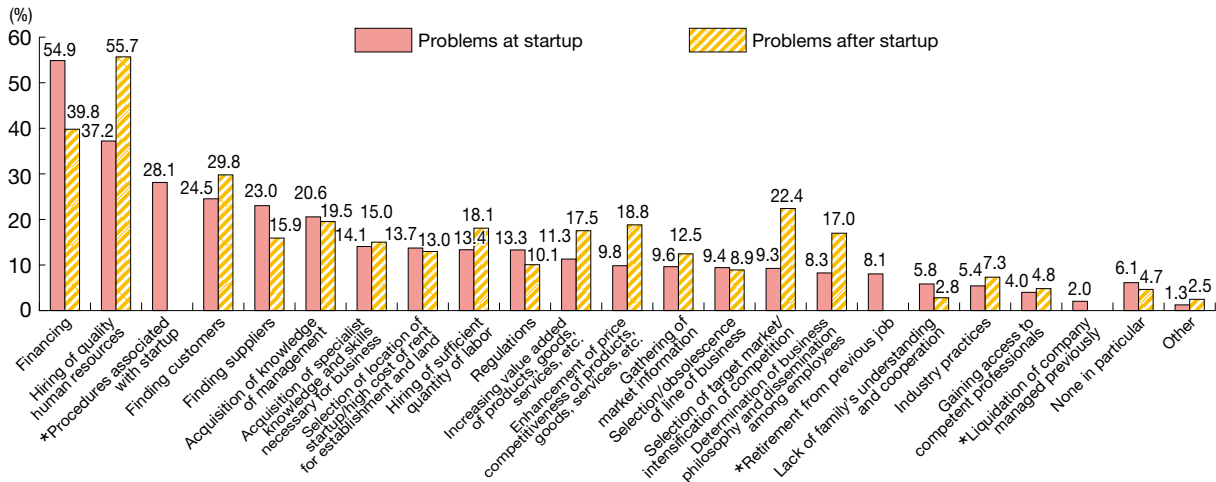
● **Problems encountered at and after startup**

A comparison of the problems encountered at startup and those encountered after startup reveals changes between before and after (Fig. 3-1-36). The core problems change at each stage, with “financing” being the biggest obstacle at startup and “hiring of quality human resources”

being cited as a later problem. “Procedures associated with startup” are also a common problem at startup, indicating that quite a few entrepreneurs consider the procedures necessary for startup to have been complex. Below, we discuss in detail the two most commonly encountered problems: financing at startup and staffing.

**Fig. 3-1-36 Problems encountered at and after startup**

The core problems change at each stage, with “financing” being the biggest problem at startup and “hiring of quality human resources” being cited as a later problem.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

- Notes:
1. “At startup” signifies the period of preparation for startup, and “after startup” signifies the period from startup to the present.
  2. Asterisked (\*) items were asked only about “at startup.”
  3. Totals do not necessarily sum to 100 due to multiple responses.

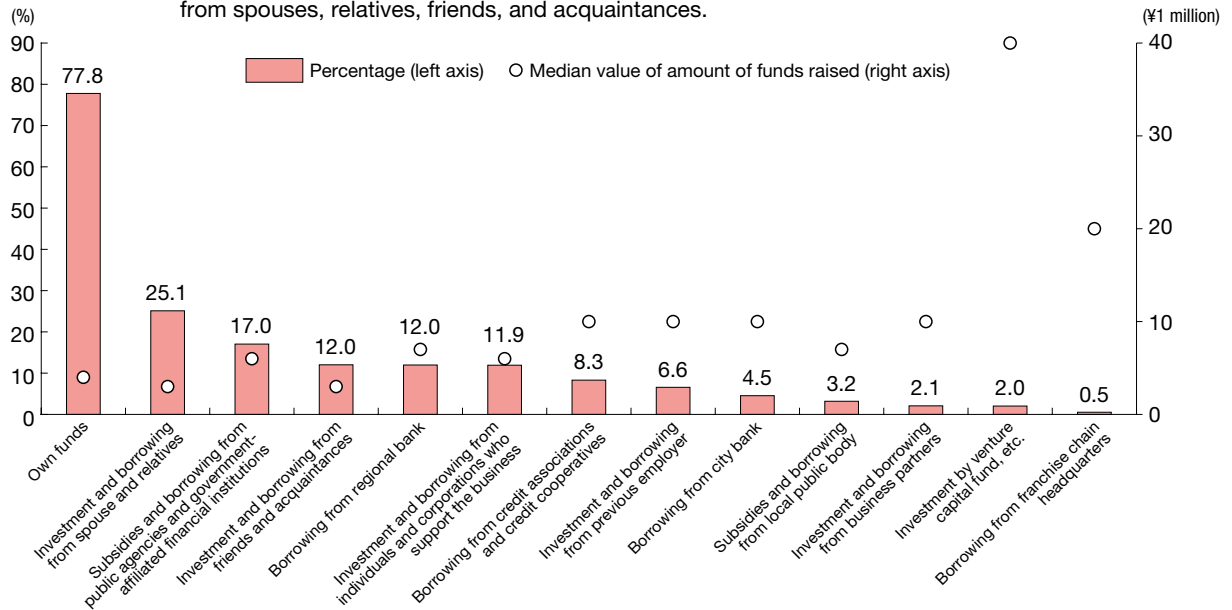
● **Procurement of startup funds and securing of human resources**

A breakdown of entrepreneurs’ sources of financing and the amounts involved (median values) are shown in Fig. 3-1-37. The main sources of financing are dominated by the “3Fs,” i.e., founder, family, and friends: “own funds,” “investment and borrowing from spouse and relatives,” and “investment and borrowing from friends and acquaintances.” Additionally, approximately 20%

obtain funding in the form of “subsidies and borrowing from public agencies and government-affiliated financial institutions,” reflecting the importance of the role played by policy finance at startup. The median values for amounts of funds raised show the largest source to be investment by venture capital funds and the like. The implication is that a very small number of entrepreneurs obtain large amounts of funding from such sources.

**Fig. 3-1-37 Sources of startup funds**

Many entrepreneurs raise startup funds in the form of their own funds and investment and borrowing from spouses, relatives, friends, and acquaintances.



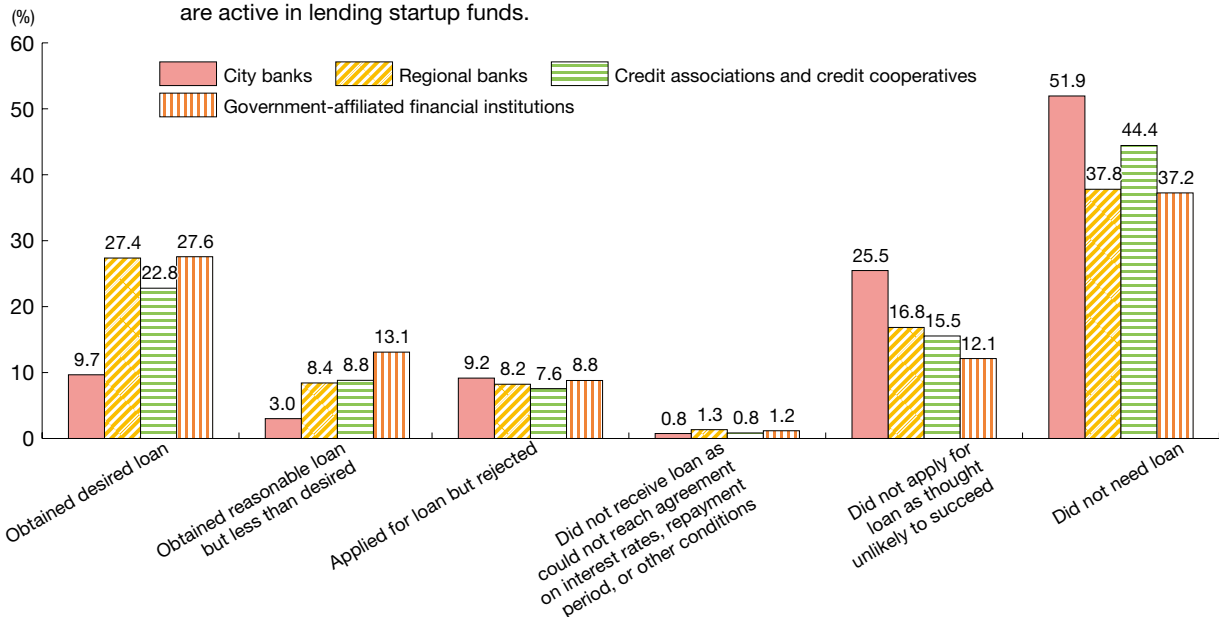
Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

A breakdown of sources of startup funding by type of financial institution, shown in Fig. 3-1-38, reveals that large numbers of entrepreneurs have obtained loans from regional banks, credit associations, credit cooperatives,

and government-affiliated financial institutions. Financial institutions of these kinds have thus clearly been active in lending startup funds.

**Fig. 3-1-38 Borrowing of startup funds from financial institutions**

Regional banks, credit associations, credit cooperatives, and government-affiliated financial institutions are active in lending startup funds.



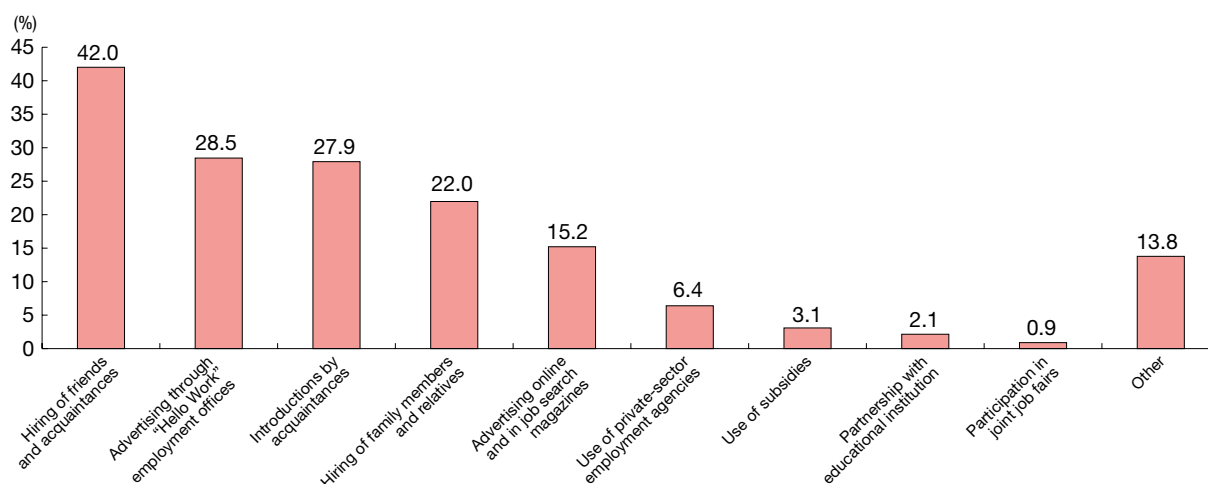
Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

Considering the means used by entrepreneurs to secure human resources, the common use of “hiring of friends and acquaintances,” “introductions by acquaintances,”

and “hiring of family members and relatives” shows that, as with financing, acquaintances and family play a central role (Fig. 3-1-39).

**Fig. 3-1-39 Staffing at startup**

Many entrepreneurs rely primarily on friends and acquaintances, introductions by acquaintances, family members, and relatives to meet their human resource needs.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

Note: Totals do not necessarily sum to 100 due to multiple responses.

### ● Trends by industry

Above, we surveyed trends in startup activity in Japan. However, the varying state of startup activity and problems depending on the industry concerned means that it is necessary to ascertain trends in startups in individual industries. Below, therefore, we analyze the motives and purposes of startups and the problems encountered at and after startup by dividing industries into four main groups: (1) "IT," consisting of the information and communications industries in which there is particularly strong entry activity and marked growth after startup,<sup>14)</sup> (2) "medical, health care and welfare," consisting of the medical, health care and welfare fields that see particularly strong entry activity and in which enterprises make a major contribution to job creation after startup,<sup>15)</sup> (3) "livelihood," consisting of enterprises in the retail trade, eating and drinking places, and accommodations that have high entry and exit rates and whose entries make a major contribution to job creation<sup>16)</sup>; and (4)

"manufacturing," consisting of manufacturing industries that have a low entry rate and high exit rate, but that form Japan's industrial and technological bedrock.

Regarding their motives and purposes of startup, the IT group and manufacturing group are characterized by the high proportions of respondents citing, respectively, "to commercialize an idea" and "to make use of specialist knowledge and skills, etc.," suggesting that entrepreneurs in these industries are more likely than those in others to start a business in order to make use of their own ideas, skills, knowledge, and so forth. In the medical, health care, and welfare group, a conspicuously greater proportion of entrepreneurs want "to contribute to society." This indicates that "social entrepreneurs" who are not necessarily motivated by profit are a major presence in this group. In the livelihood group, a high proportion of entrepreneurs give as a motive "to seek self-realization through work" (Fig. 3-1-40).

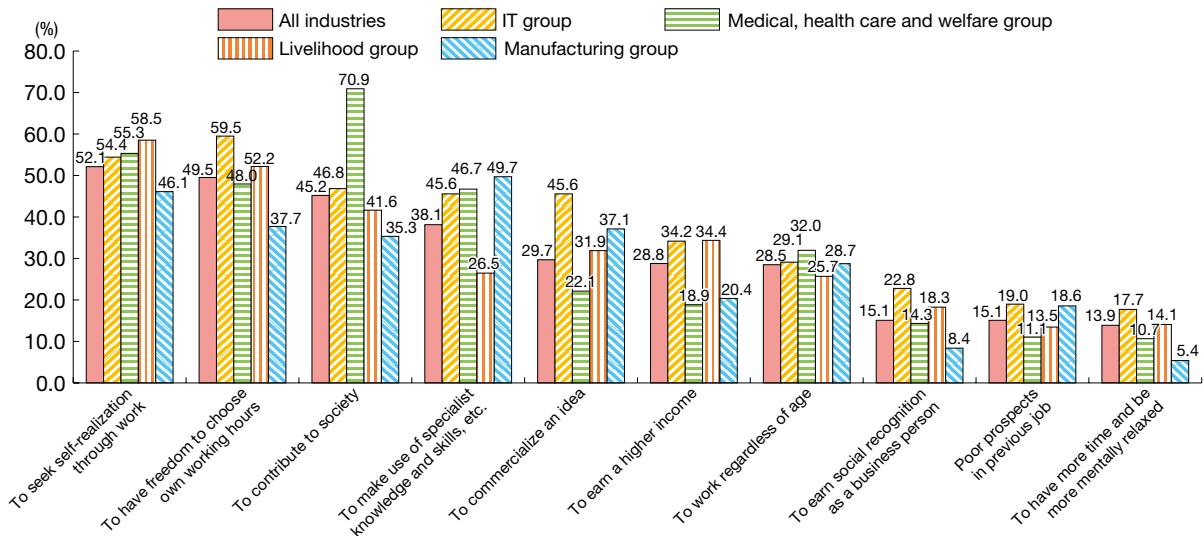
14) See Figs. 3-1-3 and 3-1-15.

15) See Figs. 3-1-3 and 3-1-19.

16) See Figs. 3-1-3 and 3-1-16.

**Fig. 3-1-40 Startup motives and purposes by group**

The characteristic motives and purposes of each group are “to commercialize idea” in IT, “to make use of specialist knowledge and skills, etc.” in manufacturing, “to contribute to society” in medical, health care and welfare, and “to seek self-realization through work” in the livelihood group.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

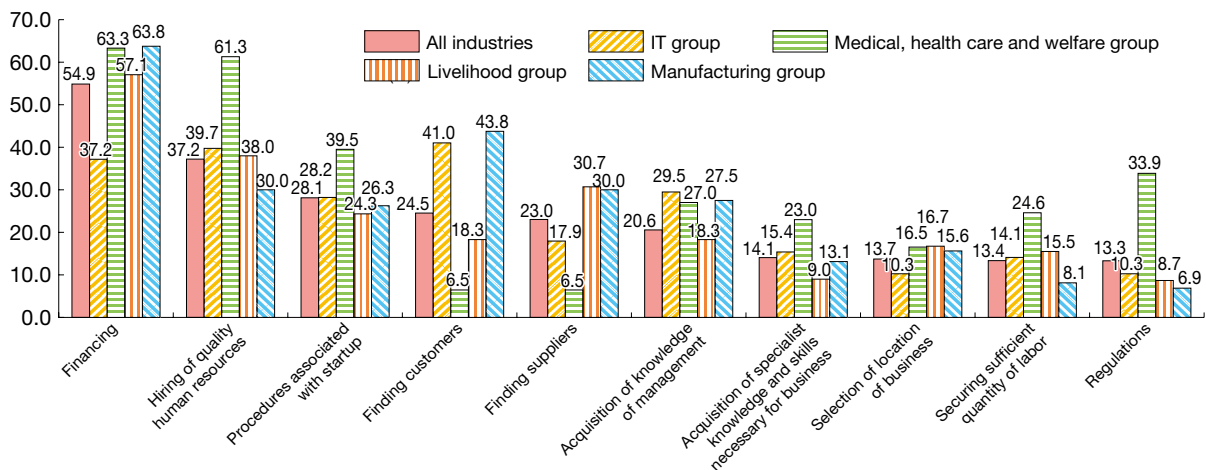
Notes: 1. Only the top 10 responses overall are included in the above.  
2. Totals do not necessarily sum to 100 due to multiple responses.

Looking next at the problems encountered at and after startup, the IT and manufacturing groups are alike in that there is a transition from “finding customers” to “hiring of quality human resources” as a major problem. While the biggest problem for manufacturing at startup is “financing,” a low proportion of enterprises regard this as a problem, suggesting that startups in this group require little funding. The medical, health care and welfare group stands out for finding “hiring of quality human resources” a

problem both at and after startup. For the livelihood group, meanwhile, “finding suppliers” is a problem at startup, while problems associated with making improvements to products, goods, and services—i.e., “enhancement of price competitiveness of products, goods, services, etc.” and “increasing value added of products, goods, services, etc.”—emerge as problems after startup (Figs. 3-1-41 (1) and 3-1-41 (2)).

**Fig. 3-1-41 (1) Problems at startup by group**

The biggest problem during preparation for startup among all except the IT group is “financing.” Other characteristic problems are “finding customers” in IT and manufacturing, “hiring of quality human resources” in the medical, health care and welfare group, and “finding suppliers” in the livelihood group.



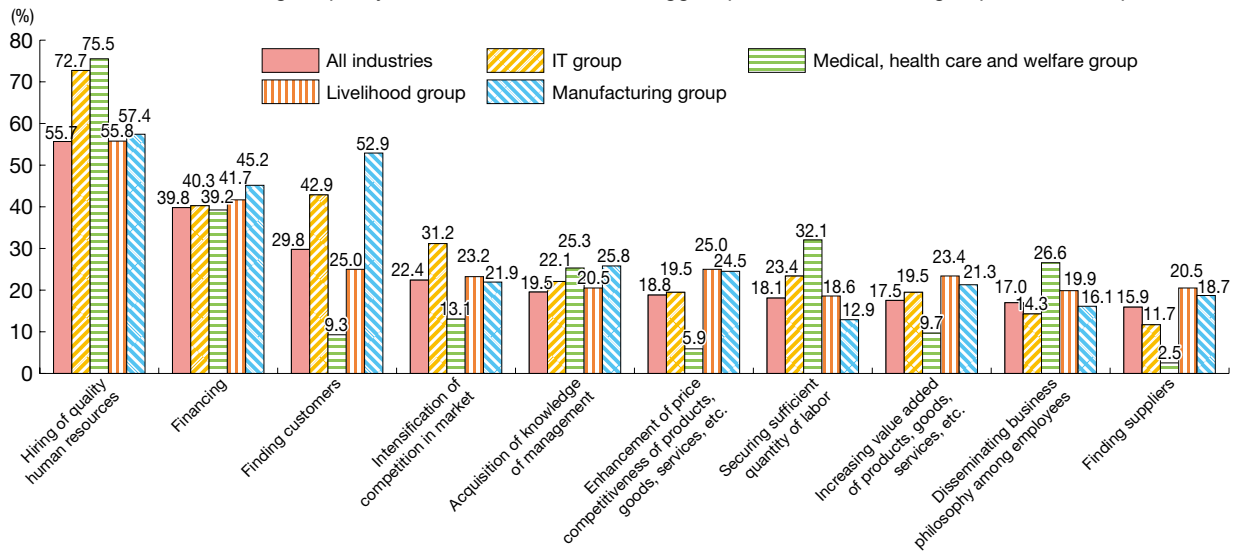
Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

Notes: 1. Only the top 10 responses overall are included in the above.  
2. “At startup” signifies the period of preparation for startup.  
3. Totals do not necessarily sum to 100 due to multiple responses.



**Fig. 3-1-41 (2) Problems after startup by group**

“Hiring of quality human resources” is the biggest problem faced in all groups after startup.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

- Notes:
1. Only the top 10 responses overall are included in the above.
  2. “After startup” signifies the period from startup to the present.
  3. Totals do not necessarily sum to 100 due to multiple responses.

● **Promotion of startup activity**

So far, we have analyzed the state of startups in Japan and challenges faced, using mostly the findings of questionnaire surveys of entrepreneurs. We look next at the steps that are needed to promote the startup activity that, though seemingly sluggish from a statistical point of view, is making a steady contribution to Japan’s economic growth.

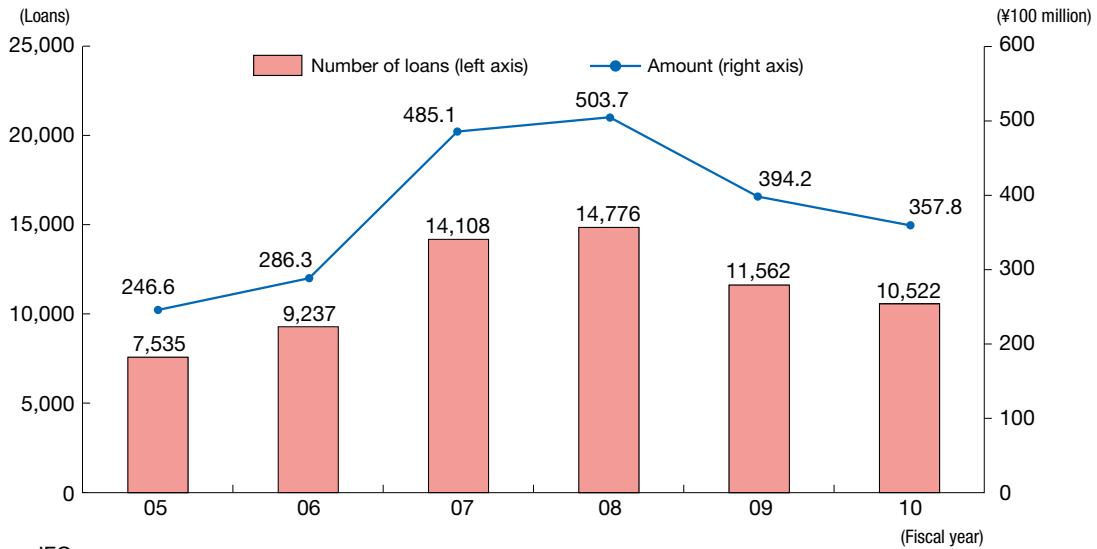
As Fig. 3-1-6 showed, there are over a million potential startup entrepreneurs in Japan, demonstrating that many people are interested in startups. The first thing that needs to be done to promote startups is no doubt to remove the obstacles that discourage these potential entrepreneurs from actually starting a business.

As we have seen, the biggest problem for entrepreneurs at startup is raising the necessary startup funds. The majority of such funds are presently derived from

entrepreneurs’ own funds or obtained from relatives and friends. Considering the impact that startup activity has on the Japanese economy and the risks associated with startups, however, policy support is necessary. The JFC operates a new startup loan program that provides unsecured and unguaranteed loans worth up to ¥10 million to entrepreneurs who are starting or have just started a new business. 11,562 such loans worth a combined total of ¥39.4 billion were made in fiscal 2009, followed by another 10,522 loans worth ¥35.8 billion in fiscal 2010 (Fig. 3-1-42). As already demonstrated, 17% of entrepreneurs use subsidies and borrowing from public agencies and government-affiliated financial institutions (Fig. 3-1-37), which provides some indication of the scale of the role played by policy finance in promoting startup activity.

**Fig. 3-1-42 Use of the JFC's new startup loan program**

The JFC actively lends to entrepreneurs.



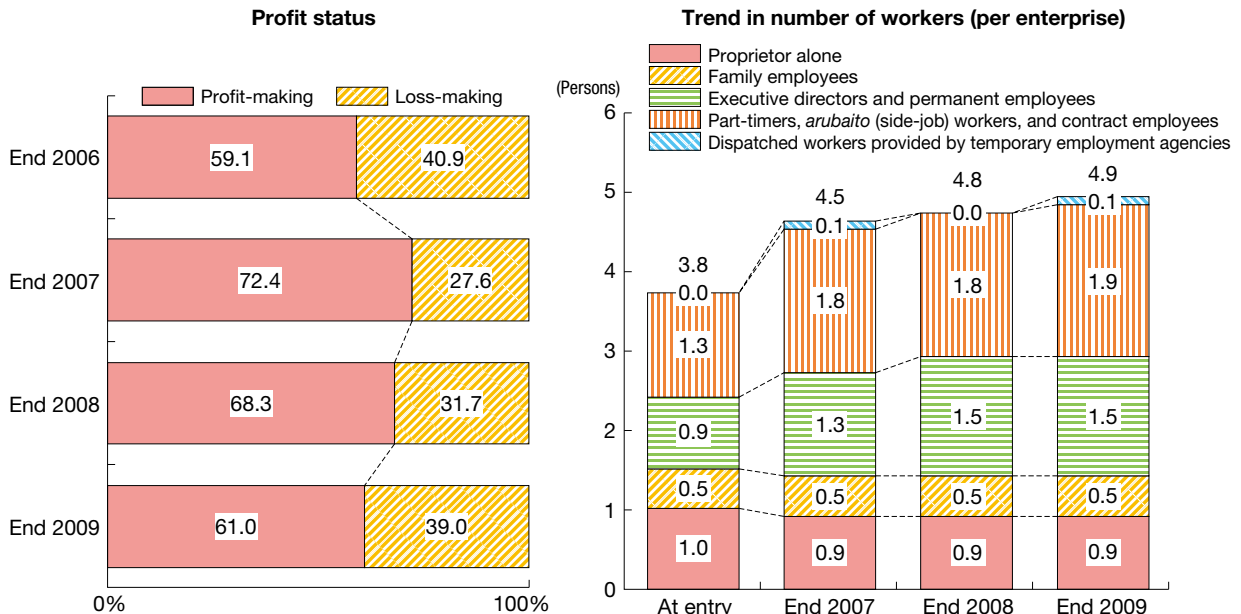
Source: JFC.

The question we must ask is: Do the startups that receive loans succeed and grow? According to the *New Entry Panel Survey*,<sup>17)</sup> which is an ongoing survey conducted by the JFC of enterprises within one year when loans were made, 86.8% of the enterprises founded in 2006 were still existing as of December 2009, in the fourth

year after entry, despite the effects of the Lehman crisis. Furthermore, 61.0% were generally making a profit and the number of workers per enterprise had grown from 3.8 to 4.9, providing evidence that entrepreneurs who have received loans are steadily growing (Fig. 3-1-43).

**Fig. 3-1-43 Trends among enterprises established in 2006 that received loans from the JFC**

Entrepreneurs who received loans are steadily growing.



Source: JFC, *New Entry Panel Survey*.

Notes: 1. Excluding real estate leasing.

2. Figures on profit status are for enterprises that responded to all surveys between 2006 and 2009.

3. Figures on numbers of workers are for (a) enterprises that responded to all surveys at startup and from 2007 to 2009, and (b) exiting enterprises that gave their numbers of workers every year up to the year before exit. The number of workers of exiting enterprises from year of exit is assumed to be 0.

17) This is a questionnaire survey of 2,897 customers (excluding real estate leasing) of the National Life Finance Corporation (now the JFC) that was established in December 2006, and has been conducted every year since 2006. 1,411 enterprises responded to the December 2009 survey.

Fig. 3-1-38 demonstrated that, alongside government-affiliated financial institutions, regional banks, credit associations, and credit cooperatives also actively provide lending for startup funds. Outside the large urban areas where entry rates are not especially high<sup>18)</sup>, regional banks, credit associations, and credit cooperatives are able, thanks to their local ties, to lend more actively to potential entrepreneurs with the “seeds” to successfully start up in business—such as their own technologies and products—and the boost that this gives to startup activity translates into revitalization of regional economies.

Many SMEs were affected by the Great East Japan Earthquake on March 11, 2011, and particularly SME owners whose plants and stores were destroyed by the earthquake and subsequent tsunami face problems of raising the funds to rebuild their businesses, just like startup entrepreneurs. To help entrepreneurs rebuild their businesses under such severe conditions, programs for assisting SMEs and other businesses affected directly or indirectly by the earthquake are operated by several organizations. These include: disaster recovery loans and special Great East Japan Earthquake reconstruction loans provided by the JFC; long-term, low-interest loans from the Shoko Chukin Bank to enable better crisis response; and the provision of disaster-related guarantees and emergency guarantees for Great East Japan Earthquake reconstruction by credit guarantee corporations in order to guarantee borrowing of funds for business reconstruction.

Another common problem at startup concerns “procedures associated with startup.” Streamlining the necessary startup procedures and easing relevant regulations is therefore important. The Companies Act that entered effect in May 2006 abolished minimum capital requirements. In order to continue to promote startups, however, other remaining barriers to entry need to be lowered. At the same time as lowering the barriers to entry, it is also necessary to develop the environment to make it easier for enterprises to withdraw from the market or to turn themselves around. The *2003 White Paper on Small and Medium Enterprises in Japan* observed that many proprietors of bankrupt enterprises that have closed down permanently or temporarily do not want to start up in business again because of the financial and psychological pressures.<sup>19)</sup> It would therefore also appear necessary to make it easier for entrepreneurs to start or re-start in business by reducing these pressures and lowering the startup risks.

Other common problems found at and after startup are “hiring of quality human resources” and “finding customers.” Staffing and market development are extremely difficult challenges for new enterprises, and policy support in this area is also necessary. To facilitate the hiring of human resources, METI has teamed with other agencies to establish a “Job café” project to help youngsters find work and develop skills suited to the employment and industry characteristics of their regions.

This provides a one-stop shop for end-to-end employment support services, including career counseling and human resource development and training, and is operated under prefectural management making active use of private-sector know-how. Thanks to the program, some 53,000 people found jobs in fiscal 2010. As also noted in Part I, the SME Agency runs a number of programs to assist SMEs and fresh graduates who have yet to receive job offers. These include the New Graduate Employment Support Project, which arranges internships to match SMEs with potential employees, and joint job fairs and other events. Further support is provided by the Employment and Human Resources Development Organization of Japan, which subsidizes the hiring of new employees for startups and entries into different industries. In fiscal 2010, subsidies worth around ¥3.73 billion were disbursed for 4,478 jobs.<sup>20)</sup> Support programs to assist market development by SMEs are also provided by the Organization for Small and Medium Enterprises and Regional Innovation, Japan (“Support SME, Japan”). These include general business exhibitions for SMEs and the “Market Navigator Creation Support Program,” under which experienced business people registered as “market navigators” assess SMEs’ products and services and provide information on potential market outlets. One reason why new enterprises find it difficult to find human resources and markets is the lack of information on themselves and their products, goods, and services. In this respect, the role of the Government, prefectural governments and other agencies in uncovering and supporting new enterprises with strong potential can make an effective contribution to helping job seekers and potential business partners to acquire information on these enterprises.

Having discussed the steps needed to promote startup activity, it is evident that entrepreneurs face a diversity of obstacles that vary according to industry. Finding human resources and markets is a challenge for IT group startups, while it is finding human resources that are the problem for medical, health care and welfare group startups. Startups in the livelihood group, meanwhile, find it more difficult than other industries to find suppliers and enhance the price competitiveness and value added of their products and services, while financing and finding human resources and markets are the problem for manufacturing group startups. In view of startups’ impact on the economy and society and the risks attendant on startups, the Government, prefectural governments, and financial institutions of all kinds have a major role to play in promoting startup activity. Policy support therefore needs to be further refined to closely match entrepreneurs’ circumstances, focusing in particular on the discovery of promising new enterprises, assistance with financing, recruitment, and market development, removal of barriers to entry, and development of arrangements to help SMEs to withdraw from markets and turn themselves around.

18) On p. 146 of *2008 White Paper on Small and Medium Enterprises in Japan*, it was noted that prefectures that have cities with populations exceeding one million, such as Hokkaido, Tokyo, Osaka, and Fukuoka, tend to have comparatively high entry rates.

19) See p. 130 of *2003 White Paper on Small and Medium Enterprises in Japan*.

20) Since fiscal 2011, subsidies have been provided for jobs created by startups or entries into other industries in health care and environmental fields, which are targets of priority support under the New Growth Strategy.

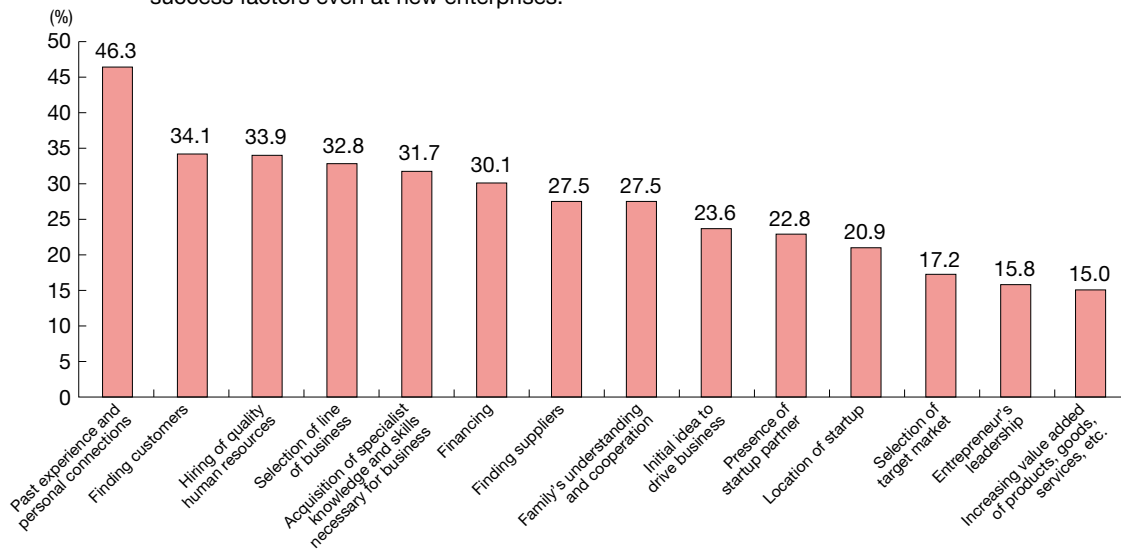
### ● Startup success factors

So far, we have outlined the steps that are being taken or necessary to promote startup activity. What, then, do successful entrepreneurs regard as the factors behind their success? Fig. 3-1-44 shows the factors that entrepreneurs consider to have contributed to their business success. This reveals the most commonly cited factor to be “past experience and personal connections.” Thus even in the case of new enterprises, large numbers of entrepreneurs

appear to consider factors such as past experience and personal connections to be important success factors.<sup>21)</sup> Financing and finding human resources, which were overwhelmingly identified as problems at and after startup, are also recognized as success factors, though only to around the same extent as finding customers, selection of line of business, and acquisition of specialist knowledge and skills.

**Fig. 3-1-44 Factors behind success of startups**

The most commonly cited factor behind the success of a startup is “past experience and personal connections,” indicating that entrepreneurs’ past experience and personal connections are important success factors even at new enterprises.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

Notes: 1. Totals do not necessarily sum to 100 due to multiple responses.

2. Only responses that were selected by at least 15% of the respondents are included in the above.

21) Among women, it has been noted that the business results and desire to expand their businesses of women with managerial experience are comparable with those of male proprietors, and that the scale of capital and workforces of the enterprises that they manage increase with length of experience of management and business administration. (Tomoyo Kazumi, *Impact of Occupational Experience on Female Entrepreneurs' Entrepreneurial Activities* (Japan Academic Society for Ventures and Entrepreneurs, 2006)).

**Case  
3-1-7**

**A university venture where the entrepreneur used product development experience and personal connections from his former position to develop cell manipulation apparatus that contributes to new drug development and regenerative medicine**

IWORKS Inc. is a university venture in Toyonaka City, Osaka Prefecture with one employee and capital of ¥5.5 million which used dielectricphoresis technologies to develop the “Cell Works” apparatus that can be used for the manipulation, selection and fusion of cells. The company presently maintains a research base at Osaka University, and is engaged in research, development, manufacturing and sales of bioscience research tools.

President Takuya Yokoyama was engaged in the development of microscopes at his previous job. He met Yoshikazu Wakizaka of Osaka University, and became interested in the phenomenon of dielectricphoresis whereby force is exerted on particles in a non-uniform electric field. He received help from many directions, and formed IWORKS together with Mr. Wakizaka in 2007 with funding assistance from his former company. President Yokoyama is responsible for the management aspects, and Mr. Wakizaka is in charge of the technology. The company was conducting consigned research and manufacturing testing equipment when they finally succeeded in developing the “Cell Works” apparatus which enables the free manipulation, selection and fusion of cells under a microscope using dielectricphoresis. This apparatus is expected to have applications in new drug development and regenerative medicine.

President Yokoyama says, “In establishing the company, my partner’s presence, experience and customers from my former job, and the psychological support of my family were all important.” In particular, he says that from his former experience he learned the importance of spending time at the manufacturing site, limiting expenses in the early product development stages, and only moving into production once the outlook is somewhat clear. He says, “I now want to focus on increasing applications for “Cell Works,” to contribute to the development of bioscience.”



Using “Cell Works” (left) and fusing cells (right)

**Case  
3-1-8**

**A company that had its proprietary technology and business model certified by the city, prefecture and national governments to successfully expand sales routes**

1st Solution Corporation of Fukuoka City, Fukuoka Prefecture is a company with three employees and capital of ¥3 million that was founded in 2005 as a tenant in the Fukuoka SRP (Soft Research Park) Center Building, a business incubation facility with support from Fukuoka City, etc.

1st Solution has been realizing steady growth with its small sludge treatment equipment, which reduces costs and places a small load on the environment. The equipment makes use of the company’s proprietary technology “MC (Mesh Cut) Method” for unified sludge coagulating, sedimentation, dehydration and transport.

President Masafumi Takada worked for a local general contractor after graduating from university, and was involved with water treatment related works. Just before being promoted to a managerial position, he decided to go independent and established 1st Solution as an environmental venture business because he wanted to keep working as an on-site engineer.

President Takada had confidence in sludge treatment technology from his work at his prior job, but he received advice from SMRJ’s advisors regarding the management aspects, in which he lacked experience. Based on his belief that technology recognition and branding are also important, the business was certified as a “new collaboration project” by METI and as a “management innovation plan” by Fukuoka Prefecture, and received the grand prize in the Fukuoka City’s “Step up encouragement awards.” In addition, it was registered in the MIC’s New Technology Information System (NETIS), and is successfully expanding sales channels. 1st Solution is now working to move into overseas markets in East Asia, and further growth is expected.



Small sludge treatment equipment (left) and eco-couch used in sludge dehydration (right), both developed by 1st Solution

Analyzing next which attributes of entrepreneurs affect results after startup (sales, ordinary profit, and balance of revenues and expenditures from startup until the Lehman crisis in September 2008) based on the results of the *Startup Survey*, we find that entrepreneur attributes such as being an active entrepreneur, starting up at a young age, and being at least a university graduate have a

significant effect on results after startup.<sup>22)</sup> These findings suggest that entrepreneurs who start up in business for positive reasons in the prime of life having acquired a certain amount of experience, personal connections, and specialist knowledge and skills at university and former places of employment are more likely to achieve subsequent success (Fig. 3-1-45).

**Fig. 3-1-45 Effects of entrepreneur attributes on results after startup**

Entrepreneur attributes such as being an active entrepreneur, starting up at a young age, and being at least a university graduate have a significant effect on results after startup.

	Sales	Ordinary profit	Balance of revenues and expenditures
Active entrepreneur dummy	***	***	**
Partner dummy	*		
Incorporated startup dummy			
Startup adviser dummy	*		
Business innovation dummy	***	**	
Sense of financial sufficiency dummy			*
Investment by venture capital fund, etc. dummy		*	
Male dummy			
Age at startup	***	*	**
Education (at least university graduate) dummy	***	***	**
Assets			
Parent's occupation dummy			
Occupational experience dummy			
Management experience dummy			
Use of startup support dummy	**		

Source: Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

- Notes:
1. For details, see Appended Note 3-1-1.
  2. Sales, ordinary profit, and balance of revenues and expenditures in the three years until the Lehman crisis in September 2008 (from startup until the Lehman crisis, in the case of enterprises that were less than three years old) were used as the dependent variables.
  3. Variables that affect results after startup, other things being equal, are indicated by an asterisk (\*).
  4. Significance levels are as follows: 1% (\*\*\*), 5% (\*\*), and 10% (\*)

We have seen that the majority of Japan’s entrepreneurs can be categorized as “spinoff” or “*noren-wake*” type entrepreneurs who start in business after retiring from an existing enterprise (Fig. 3-1-33). This is because employees of an existing enterprise have ample opportunities to discover ideas and ambitions forming the basis for their startups in the course of their work, and to experience trigger events, such as finding partners for startups and becoming interested in starting up in business through negotiations with entrepreneurs, customers, and suppliers. As employees with such experiences and personal connections already have a certain amount of funds, experience, and personal connections, they are less likely to find the problem of financing and finding human resources to be barriers to entry. They are also more advantageously placed from the point of view of finding customers, which, as we have seen, is both a problem and a key to success after startup. Prior experience of working at an enterprise therefore appears to have a major influence on the success of a startup.

Another commonly cited startup success factor is “acquisition of specialist knowledge and skills necessary for business” (Fig. 3-1-44). As a regression analysis shows that being at least a university graduate and business innovation (in the form of the introduction of new technologies, production methods, goods, or services) have significant effects on success after startup (Fig. 3-1-45), the probability of success is likely to be higher for more innovative entrepreneurs who use specialist knowledge and skills acquired at university and in their past jobs to bring new technologies and so on to market.

It may be concluded from the above that individuals who have acquired experience, personal connections, specialist knowledge and skills through their education and occupational experience and who take on the challenge of starting up in business at a younger age are more likely to succeed. The key to promoting economic renewal through startups in the future is thus to develop the conditions to enable such capable young employees to actively engage in startups.

22) For details, see Appended Note 3-1-1.

This section provided an overview of the state of startup activity in Japan, and showed that, although sluggish from a statistical point of view, startups are still a steady source of economic growth. This was followed by discussion of the measures that are being taken and are necessary to stimulate greater startup activity. The Japanese economy has been in a prolonged period of low growth since before

the March 11 earthquake. With the outlook unlikely to improve if things continue as at present, it is without a doubt the entrepreneurs of today and of tomorrow who, boldly tackling fresh challenges, will play a leading role in rebuilding Japan, acting as the standard-bearers who will lead Japan out of this period of economic ossification toward a fresh future.

## Section 2 State of changes of business in Japan<sup>23)</sup>

In our review of trends in startups in Japan in Section 1, we argued that, while statistically at least startup activity in Japan is at a somewhat low ebb, startups have a major impact on the economy and society in that they stimulate innovation and economic renewal, create jobs, and contribute to greater social diversity. But while the emergence of entrepreneurs certainly makes an important contribution to Japan's economic growth, it is not only the newborn entrepreneurs of this kind who have the strong entrepreneurship necessary for economic growth.

Among existing proprietors, there are also some people who display similar entrepreneurship in entering into new fields or changing their lines of business or industries in order to get through difficult times and achieve further growth. Focusing on entries into new fields, changes of line of business, and changes of industry by existing enterprises, therefore, we analyze in this section the state and impact on the economy and society of such changes of business and examine in detail the economic renewal effect engendered by them.

### [1] Current situation regarding changes of business in Japan

#### ● Definition of “changes of business”

The term *tengyo*, translated as “changes of business” and “business changes,” is normally used in Japanese to mean a change of occupation or business.<sup>24)</sup> Such changes can take a variety of forms. For the purposes of the analysis in this section, however, we divide them into three types according to the extent of the change involved: (1) entry into a new field, (2) change of line of business, and (3) change of industry.

(1) Entry into a new field occurs when an existing enterprise enters a related or new field without changing its core industry or line of business. This occurs when, for example, an enterprise manufacturing a certain product or selling a certain type of merchandise or service starts making or selling something else in a related or new field while maintaining its existing operations.

(2) Change of line of business occurs when an enterprise enters a new field within the same industry that becomes its largest source of sales. To give a concrete example, this

occurs when the proportionately biggest selling product or service made or sold by an enterprise changes.

(3) Change of industry occurs when a change of line of business results in a change to the industry accounting for the largest proportion of an enterprise's sales. In other words, a change of industry occurs when an enterprise's core products or services cross over into another industry. For our purposes, we classify industries according to MIC's *Japan Standard Industrial Classification*. The *Japan Standard Industrial Classification* classifies industries at four levels of detail: division, major group, group, and industry. There are 20 industries at the division level, 99 at the major group level, 529 at the group level, and 1,455 at the industry level. At the division level, for example, industries are divided into “construction,” “manufacturing,” “wholesale and retail trades,”<sup>25)</sup> and so forth. At the major group level, on the other hand, “manufacturing” is divided into “textiles,” “iron and steel,” “transport equipment,” and so on. It is therefore necessary to consider which level of industry classification is being used when defining changes of industry.

23) In *The Theory of Economic Development*, Schumpeter observed: “One is basically only an entrepreneur when forming new combinations. Consequently, when one simply manages the enterprise that one has created on a cyclical basis, one ceases by nature to be an entrepreneur. It is therefore rare to find someone who constantly remains an entrepreneur through decades of effort, and in fact just as rare as to find a business person who complete lacks any of the elements that constitute an entrepreneur.”

24) Iwanami Shoten, *Kojien* (Sixth Edition).

25) Under the *Japan Standard Industrial Classification*, “wholesale and retail trades” comprises a single division. For the convenience of analysis, however, we treat “wholesale trade” and “retail trade” separately below.

### Case 3-1-9

#### A company that advanced into the medical equipment field using ultra-precision cutting technology

Hariki Seiko Co., Ltd. manufactures and sells precision equipment parts in Osaka City, Osaka Prefecture with 102 employees and capital of ¥60 million.

Hariki Seiko has manufactured AV-related parts using ultra-precision cutting as its core technology ever since the company was founded in 1952. The company moved into IT parts from around 1990 and automobile parts from around 2000, growing by advancing into new fields in line with the flow of the times. Hariki Seiko entered the medical equipment parts industry, which is expected to grow both inside Japan and overseas, in 2007. The company now manufactures and sells precision parts for medical equipment using its state-of-the-art cutting technology.

Hariki Seiko faced various issues in advancing into medical equipment parts including a shift from stable mass production of high-precision parts to small-lot production of complex high-precision parts, and employee reeducation for the production and inspection of new items. Nevertheless, the company has used its cutting technology accumulated over many years to position medical equipment as a main business field and manufacture precision parts for medical equipment. Hariki Seiko concluded business negotiations with a U.S. company at a trade fair organized by the Osaka Chamber of Commerce and Industry and the Japan External Trade Organization, and successfully gained a foothold in this new business field.

President Ryo Hariki says, "With the advance into medical equipment, we would like to expand in the future from parts into finished products to increase our business options."



High-precision medical equipment parts manufactured by Hariki Seiko Co.

### Case 3-1-10

#### A company which developed high-power LEDs after it changed businesses and lit up the Tower of the Sun for the first time in 40 years

WDN (World Dream Network) Co., Ltd. is a company founded in 2001 engaged in development, manufacturing and sales of LED lighting and floodlights with seven employees and capital of ¥10 million in Moriguchi City, Osaka Prefecture.

WDN previously manufactured LCD (liquid crystal display) backlights and special magnets as the subcontractor to a large corporation, but orders declined when the parent advanced overseas. President Hatsuhiro Mochizuki was appointed in 2006 and decided to change business fields. He stopped production for about a year and a half to develop LED lighting, aiming at developing a business in the growing environmental field. President Mochizuki, who has an engineering background, succeeded in development through trial and error, making use of the backlight deflecting plate, reflecting plate and heat dissipation technologies from the company's prior LCD business. WDN successfully entered the LED business in 2008. The company's LED lighting was used to light up the eyes on the Tower of the Sun in the Expo Commemoration Park at the 40th anniversary celebration of the Osaka Expo in 2010.

President Mochizuki says "Cash flow and applying company strengths to a limited field were important in changing businesses." WDN had its management innovation plan approved in July 2010, and is making use of the local SME support center to achieve further growth from sales of flexible area LEDs<sup>26)</sup> on which it has patents pending.



The eyes of the Tower of the Sun are lit up for the first time in 40 years using WDN's LED lighting.

26) Light emitting diodes with adjustable lighting range.



## Case 3-1-11

### A company that changed from brick and mortar to online sales and keeps growing

Tantan Corporation is a company in Hachioji City, Tokyo Prefecture founded in 1946 which sells household appliances with 15 employees and capital of ¥47 million. Tantan grew through sales at outlets centered on Hachioji City, and expanded to 10 stores at the height of the bubble economy. With the subsequent sudden worsening in economic conditions and the emergence of suburban discount shops, however, sales declined and Tantan cut back to three outlets in 1999. It was just around that time that the company began online sales. Tantan subsequently closed all its physical outlets and became an exclusive online retailer. Its annual sales have grown to around ¥4.0 billion.

The secret of their growth lies in bringing the customer comfort they provided in physical sales at outlets to the virtual market of the Internet. For example, they only hire employees with retail shop sales experience to work at their call centers, and provide complete answers to customer e-mail inquiries, often spending more than an hour holding discussions and polishing the response. Such efforts to improve customer satisfaction are also reflected in company systems. Tantan has an automated search system that reviews the flood of Internet pricing information more than 10,000 times a day, and reflects the findings in its own pricing. The company sends at least four progress e-mails for each sale, to remove any anxiety customers may feel from the moment they click the purchase button until their goods are delivered. Tantan order pages always include a space for customer comments and instructions, such as requests for gift-wrapping, and Tantan gladly responds to orders that cannot be satisfied using regular procedures. Their efforts have paid off. In addition to orders from regular consumers, Tantan receives many orders from schools, hospitals and electrical works contractors.

These efforts are based on Tantan's management philosophy that "boosting customer satisfaction leads to company growth." In the online sales market, which tends to focus on price, Tantan is aiming at further growth by incorporating the wisdom of human interaction.



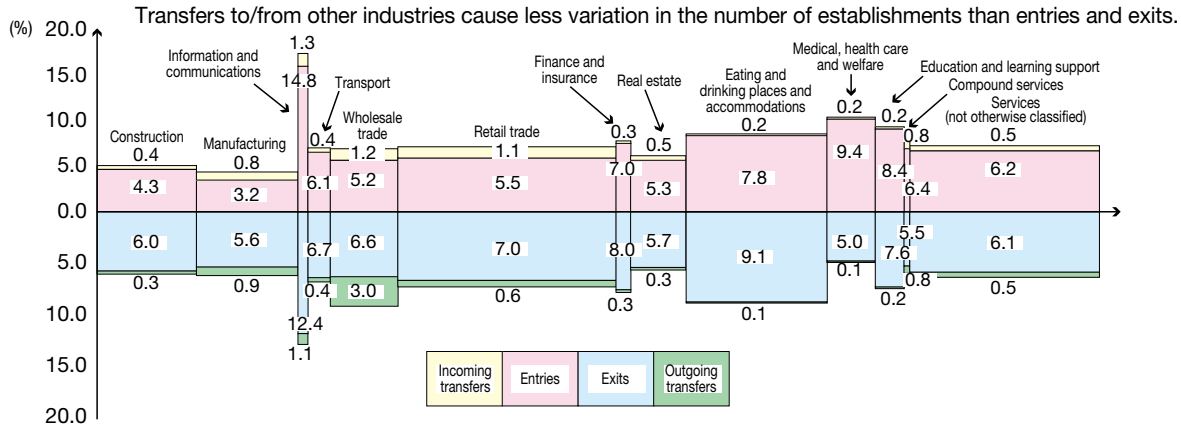
Polishing responses to customer e-mail messages

Using these definitions of entry into a new field, change of line of business, and change of industry, we analyze below the current situation regarding business changes in Japan. Focusing on those changes of industry that are ascertainable from official statistics and private-sector corporate databases, we begin by examining in detail the changes of industry that occur in Japan.

#### ● State of changes of industry

We begin with changes in industrial structure resulting from changes of industry. Fig. 3-1-46 shows changes in the number of business establishments categorized by industry at the division level employed by the *Japan Standard Industrial Classification*. From this it can be seen that transfers to and from other industries cause less variation in the number of establishments than entries and exits, which means that the renewal effect of changes of industry at the division level is smaller than that generated by entries and exits.

**Fig. 3-1-46 Rates of incoming/outgoing transfers and entry/exit rates by industry (annual averages for business establishments, 2004-2006)**



Source: Recompiled from MIC, *Establishment and Enterprise Census of Japan*.

Notes: 1. The horizontal axis indicates the proportion of all business establishments in 2004 accounted for by the number of business establishments in each industry.

2. Mining and electricity, gas, heat supply and water are excluded due to the small number of business establishments in these industries.

3. Entries and exits for business establishments include openings and closures of branches and plants, and openings and closures due to moves.

4. Incoming and outgoing transfers of business establishments are here determined on the basis of whether there occurred any change in the industry accounting for the largest proportion of revenues or sales at the division level.

In order to determine which industries enterprises are moving to and from, we take a closer look at changes of industry in industries in which at least 2,000 enterprises were involved and recorded in Teikoku Databank's database. This reveals a preponderance of changes of

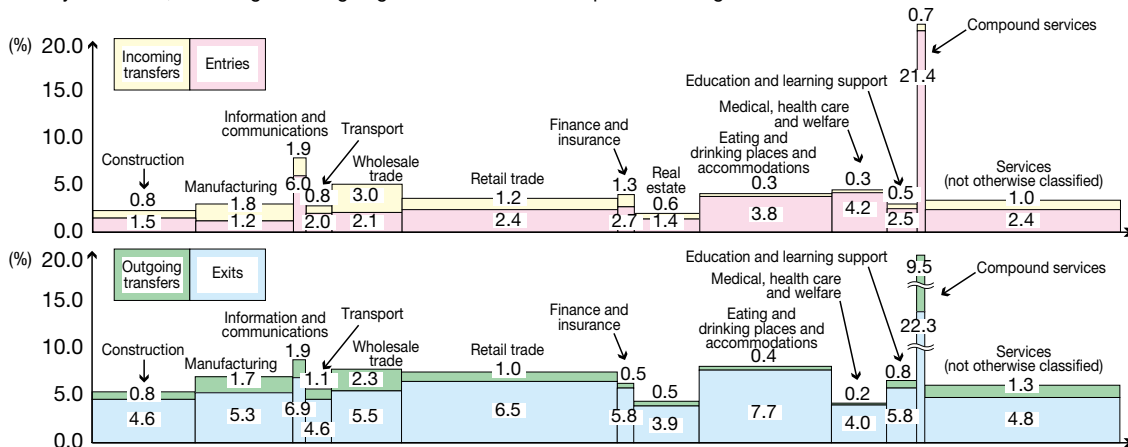
industry between the wholesale trade and the retail trade, and between the wholesale trade and manufacturing. Enterprises are thus moving upstream or downstream, with the wholesale trade functioning as the locus (Fig. 3-1-47).

**Column 3-1-3 Calculation of rates of incoming/outgoing transfers based on MIC's Economic Census: Basic Survey**

Column Figure 3-1-3 shows the rates of incoming/outgoing transfers and exit/entry rates of business establishments from 2006 to 2009, calculated based on MIC's *Establishment and Enterprise Census of Japan* and the *Economic Census: Basic Survey*. The figures show that, in many industries, incoming and outgoing transfers still have little impact on changes in the number of business establishments.

**Column Fig. 3-1-3 Rates of incoming/outgoing transfers and entry/exit rates by industry (annual averages for business establishments, 2006-2009)**

In many industries, incoming and outgoing transfers have little impact on changes in the number of business establishments.



Sources: Recompiled from MIC, *Establishment and Enterprise Census of Japan* and *Economic Census: Basic Survey* (estimates calculated by SME Agency).

Notes: 1. The horizontal axis indicates the proportion of all business establishments (non-primary industry) at the beginning of the 2006 period accounted for by the business establishments in each industry. The number of business establishments at the beginning of the period was calculated from the number of continuing and exiting business establishments.

2. Mining and electricity, gas, heat supply and water are excluded due to the small number of business establishments in these industries.

3. Entries and exits for business establishments include openings and closures of branches and plants, and openings and closures due to moves.

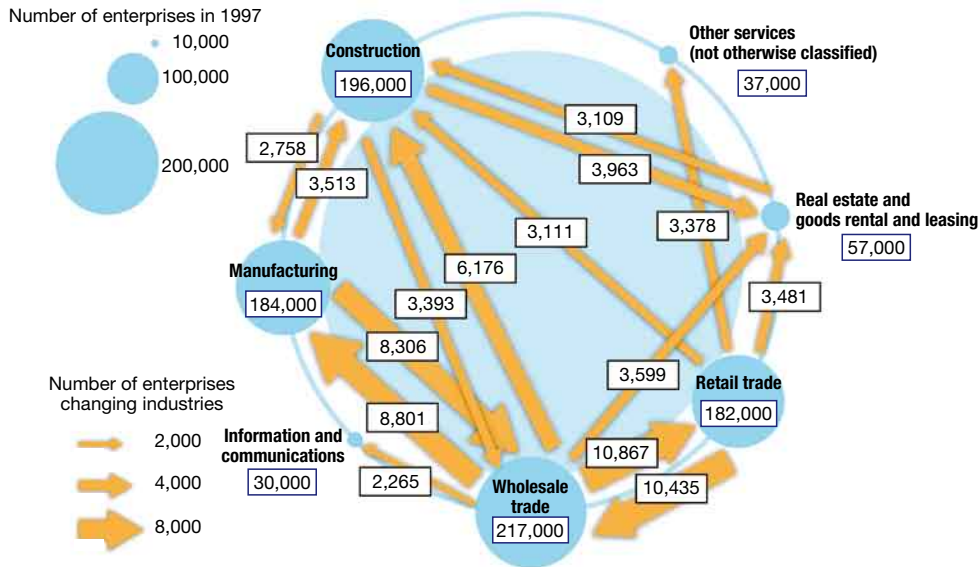
4. Incoming and outgoing transfers of business establishments are here determined on the basis of whether there occurred any change in the industry accounting for the largest proportion of revenues or sales at the division level.

5. Because the number of incoming/outgoing business establishments and exiting business establishments is limited to within the range of the *Establishment and Enterprise Census of Japan* (2006), rates of transfers to/from other industries and exit rate may be underestimated.

6. Due to differing definitions of entering business establishments and exiting business establishments, straightforward comparisons of the entry rate and exit rates cannot be made.

**Fig. 3-1-47 Changes of industry at the division level (based on enterprises, 1997-2007)**

At the division level, changes of industry often occur between the wholesale trade and retail trade, and between the wholesale trade and manufacturing.



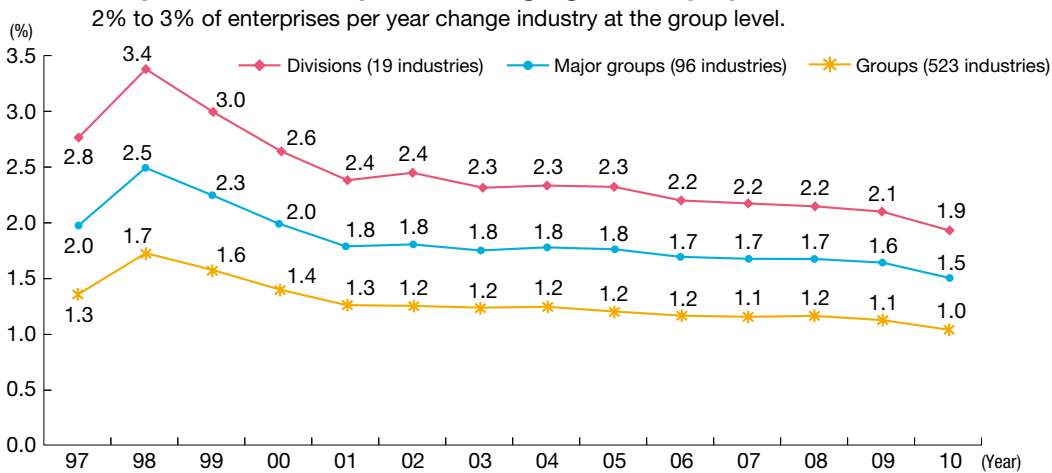
Source: Recompiled from Teikoku Databank, Ltd., *SPECIA Industry Survey and Analysis*.

- Notes:
1. "Change of industry" here means a change to the industry accounting for the highest proportion of an enterprise's overall sales.
  2. Changes of industry by at least 2,000 enterprises are shown by an arrow.

Having examined changes of industry at the division level of the *Japan Standard Industrial Classification*, we now expand our analysis to consider changes of industry at the major group and group levels. What we find is

that the proportion of enterprises that change industry is approximately 1% per year at the major group level, and 2%-3% per year at the group level (Fig. 3-1-48).

**Fig. 3-1-48 Proportion of enterprises changing industry by industrial classification**



Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 Enterprise Outline File*.

- Notes:
1. Government service, unclassifiable industries, and unknowns are excluded from the above.
  2. Rates of change of business were calculated by dividing the "wholesale and retail trades" division into "wholesale trade" and "retail trade."
  3. "Change of industry" here means a change to the industry accounting for the highest proportion of an enterprise's overall sales.
  4. Rate of change of industry = number of enterprises changing industry in year concerned / number of enterprises at beginning of year concerned

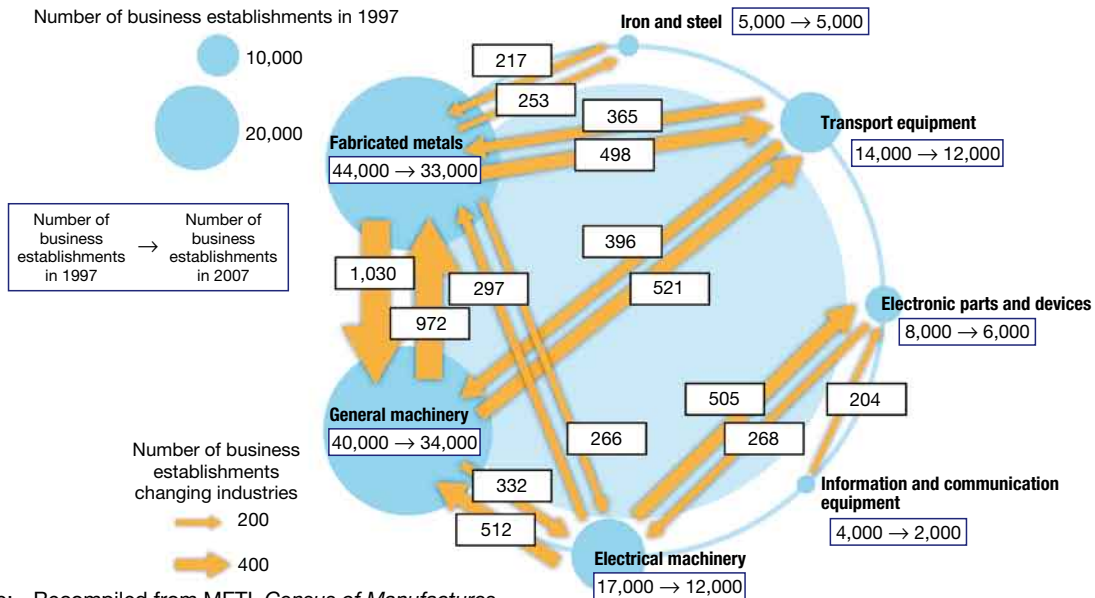
**● Changes of industry in manufacturing and in wholesale and retail trades**

Having considered the situation regarding changes of industry at the division level, we now examine changes of industry at the major group level within manufacturing and within the wholesale and retail trades using METI's *Census of Manufactures* and *Census of Commerce*.

Fig. 3-1-49 shows changes of industry between major groups of manufacturing involving at least 200 business establishments. It can be seen from this that such changes commonly occurred between fabricated metals and general machinery, from fabricated metals to transport equipment, and from electrical machinery to general machinery and electronic parts and devices.

**Fig. 3-1-49 Changes of industry in manufacturing (based on business establishments, 1997-2007)**

Changes of industry commonly occurred between fabricated metals and general machinery, from fabricated metals to transport equipment, and from electrical machinery to general machinery and electronic parts and devices.



Source: Recompiled from METI, *Census of Manufactures*.

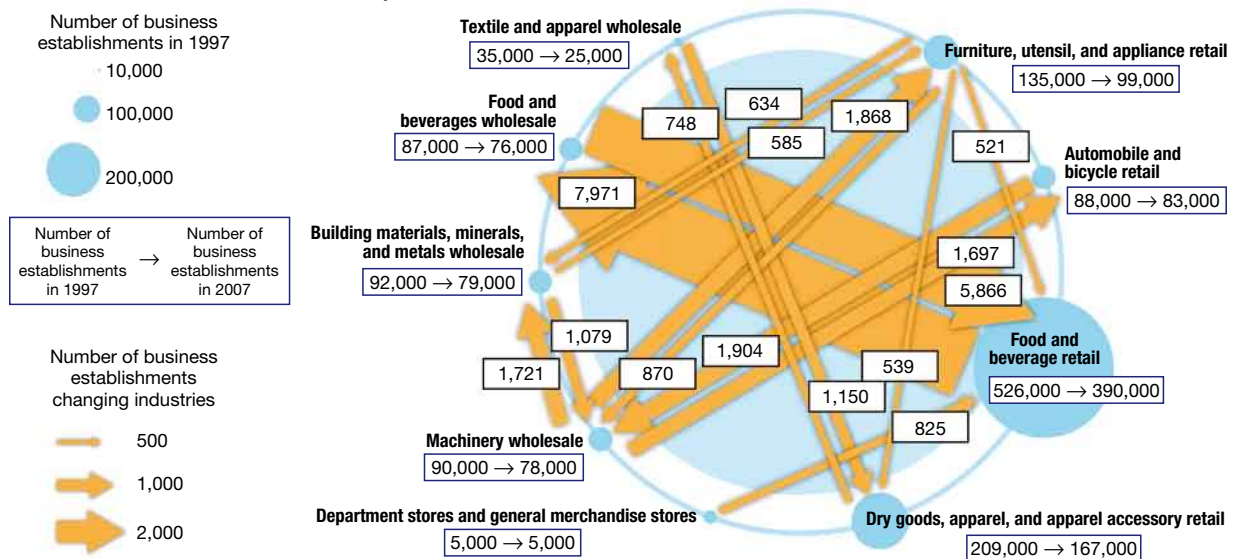
- Notes:
1. Business establishments with four or more workers that continued in existence from 1997 to 2007 and changed their category of industry within manufacturing at the major group level.
  2. "Change of industry" here means a change to the industry accounting for the highest proportion of a business establishment's total value of shipments.
  3. Changes of industry by at least 200 business establishments are shown by an arrow.

Considering changes of industry within the wholesale and retail trades at the major group level involving at least 500 business establishments, shown in Fig. 3-1-50, we discover high levels of such activity between the food

and beverage wholesale and retail trades, and between the machinery wholesale trade and the automobiles and bicycle retail trade.

**Fig. 3-1-50 Changes of industry in wholesale and retail trades (based on business establishments, 1997-2007)**

Within the wholesale and retail trades, there are high levels of business change activity between the food and beverage wholesale and retail trades, and between the machinery wholesale trade and the automobile and bicycle retail trade.



Source: Recompiled from METI, *Census of Commerce*.

- Notes:
1. Business establishments with four or more workers that continued in existence from 1997 to 2007 and changed their category of industry within the wholesale and retail trades at the major group level.
  2. "Change of industry" here means a change to the industry accounting for the highest proportion of a business establishment's total value of sales.
  3. Changes of industry by at least 500 business establishments are shown by an arrow.

[2] Significance of changes of business

Above, we defined the different types of business change, and outlined the situation regarding changes of industry at the division level and at the major group level within manufacturing and the wholesale and retail trades based on the Japan Standard Industrial Classifications. Having described in Section 1 how startups stimulate economic renewal, encourage innovation, and create jobs and social diversity, the question naturally arises: What is the corresponding role of changes of business? Below, we seek to answer this question by analyzing the impact of changes of business on changes in industrial structure and enterprise growth.

● Economic renewal generated by changes of business

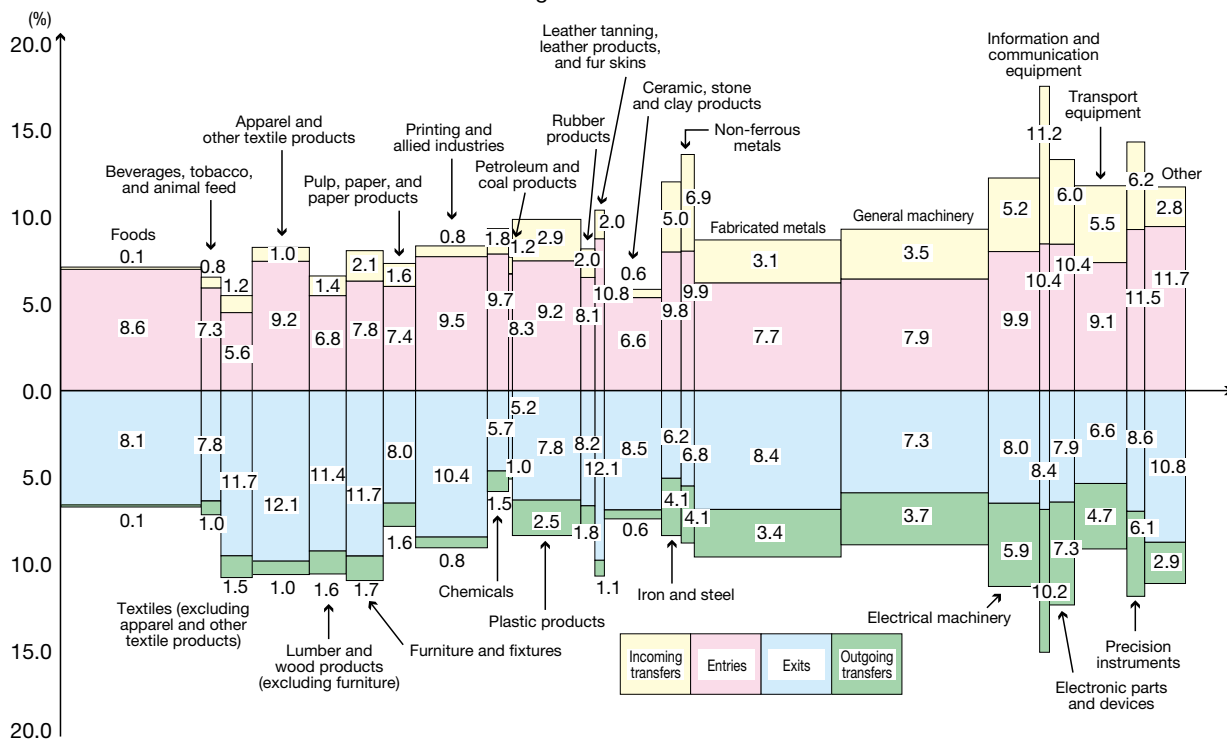
As we saw in Fig. 3-1-46, changes of industry at the division level cause less variation in numbers of business establishments than entries and exits, and so their impact on economic renewal must also be more limited. However, is the impact of changes of industry on economic renewal and changes in industrial structure really that minor?

When an enterprise changes business, it typically does so by entering a field relating to its existing business so as to be able to make use of its existing human resources, facilities, technologies, know-how, and other resources. Focusing, therefore, on changes in the number of business establishments between major groups within the same division, we analyze the renewal effect of moves into more similar industries.

Figs. 3-1-51(1) and 3-1-51(2) show the changes in numbers of business establishments due to entries/exits and incoming/outgoing transfers in, respectively, manufacturing and the wholesale and retail trades. This shows that, like changes of industry at the division level, incoming and outgoing transfers in the wholesale and retail trades at the major group level do not have a major impact on changes in the number of business establishments. In manufacturing, on the other hand, incoming and outgoing transfers have a major impact on the number of business establishments. While we saw in Fig. 3-1-3 that entry and exit rates in manufacturing are particularly low, there is strong transfer activity in in this sector, which suggests that they must be having a renewal effect.

**Fig. 3-1-51 (1) Changes in number of business establishments by category of industry in manufacturing (based on business establishments, 2006-2007)**

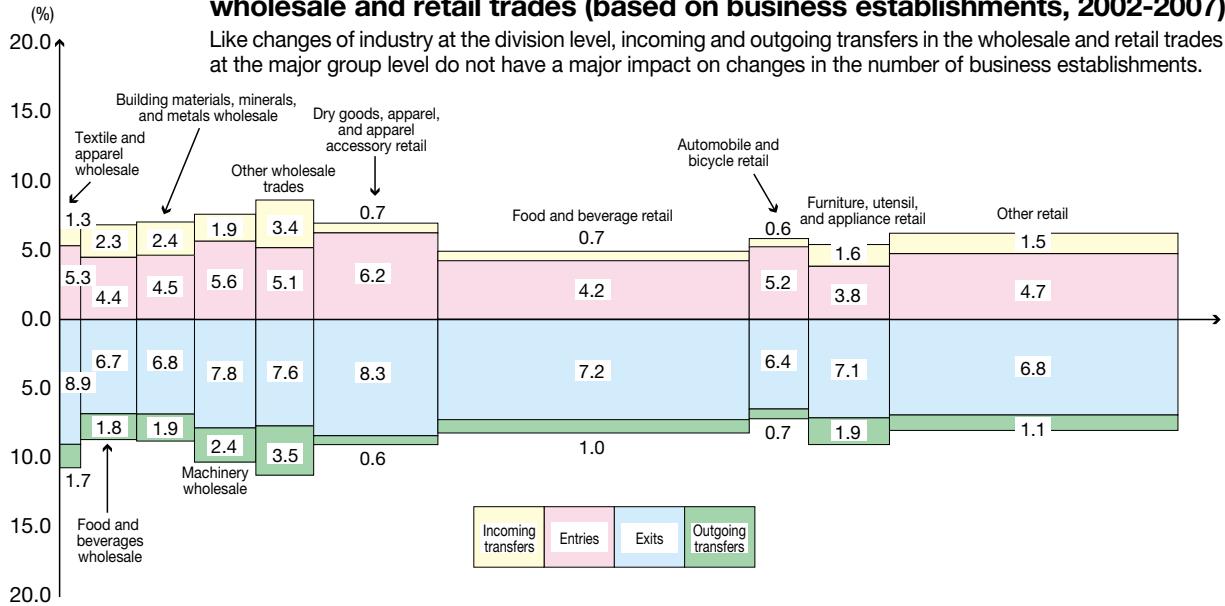
Incoming/outgoing transfers account for a comparatively large proportion of changes in business establishments in manufacturing.



Source: Recompiled from METI, *Census of Manufactures*.

- Notes: 1. The horizontal axis indicates the proportion of all business establishments in 2006 accounted for by the number of business establishments in each industry.
- 2. Entries and exits for business establishments include openings and closures of branches and plants, and openings and closures due to moves.
- 3. Incoming and outgoing transfers of business establishments are here determined according to whether there occurred any change at the major group level in the industry accounting for the largest share of value of shipments.
- 4. Only business establishments with four or more workers are included in the above.

**Fig. 3-1-51 (2) Changes in number of business establishments by category of industry in wholesale and retail trades (based on business establishments, 2002-2007)**



Source: Recompiled from METI, *Census of Commerce*.

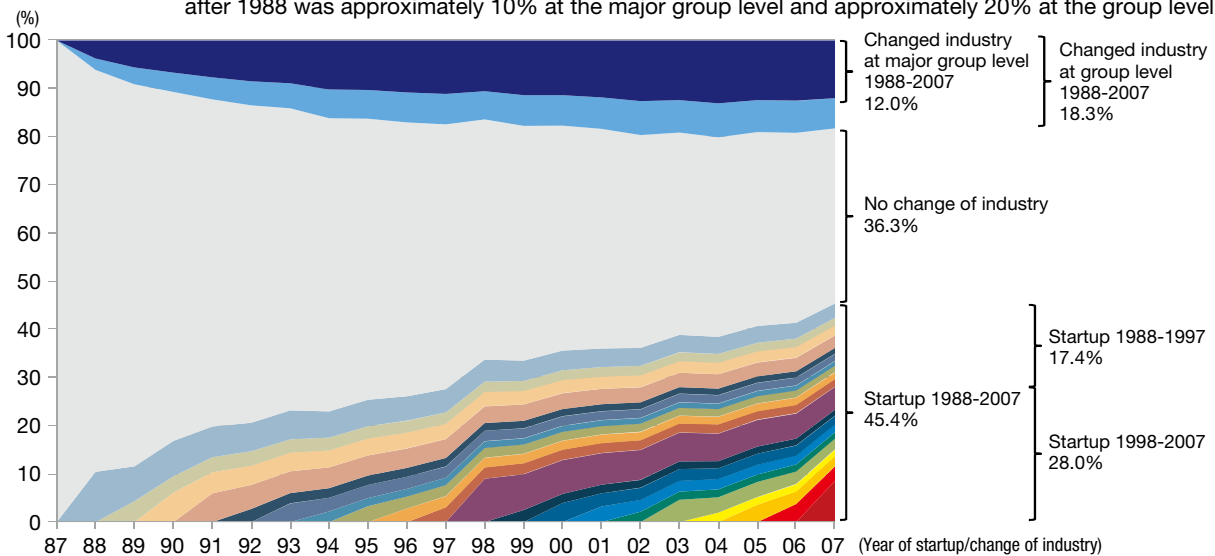
- Notes:
1. The horizontal axis indicates the proportion of all business establishments in 2002 accounted for by the number of business establishments in each industry.
  2. Varied merchandise wholesale, department stores, and general merchandise stores are not shown due to the small number of business establishments concerned.
  3. Entries and exits for business establishments include openings and closures of branches and plants, and openings and closures due to moves.
  4. Incoming and outgoing transfers of business establishments are here determined according to whether there occurred any change at the major group level in the industry accounting for the largest share of value of sales.

To enable a more detailed analysis of the renewal effect in manufacturing, Fig. 3-1-52 shows the proportions of business establishments started up in or after 1988 and those started up before 1987 that changed or did not change industry at the major group level and at the group level within the same major group in or after 1988. It

can be seen from this that in 2007, approximately 20% of business establishments in manufacturing changed industry in or after 1988. This suggests that the renewal effect of business changes also has a major impact on changes in industrial structure.

**Fig. 3-1-52 Proportion of business establishments that have changed industry (manufacturing)**

In 2007, the proportion of business establishments in manufacturing that had changed industry in or after 1988 was approximately 10% at the major group level and approximately 20% at the group level.



Source: Recompiled from METI, *Census of Manufactures*.

- Notes:
1. Percentages indicate the proportions of business establishments started up in or after 1988 and business establishments that changed or did not change industry in each year.
  2. "Change of industry" here means a change to the industry accounting for the highest proportion of a business establishment's total value of shipments.
  3. Only business establishments with four or more workers are included in the above.

### ● Growth due to changes of industry

Having observed that there is particularly considerable fluctuation in numbers of business establishments accounted for by incoming and outgoing transfers in manufacturing, let us next consider exactly what contribution changes of industry make to growth in business establishments' value added and employment and increases in their labor productivity. Below, therefore, we conduct a detailed analysis of the growth after change of industry of manufacturing establishments.

Fig. 3-1-53 shows the changes in value of shipments, value added, number of workers, and labor productivity between 2002 and 2007 of large enterprise and SME business establishments that changed industry at the

major group level within manufacturing during the period 1997-2002. It can be seen from this that among both large enterprise and SME business establishments, those that had changed industry exhibited greater growth in value of shipments, value added, number of workers, and labor productivity than those that had not. Focusing on movements in several key indicators between 1997 and 2002 similarly reveals most business establishments that changed industry to have lower indicators than those that did not. This evidence suggests that low-growth business establishments increase their production capacity, job creation capability, and labor productivity by changing industry, which in turn means that changes of industry serve to stimulate economic renewal in manufacturing.

**Fig. 3-1-53 Growth due to changes of industry**

Business establishments that have changed industry exhibit greater growth in value of shipments, value added, number of workers, and labor productivity than those that have not.

Manufacturing shipments (real value)		Rate of change (1997-2002)	Rate of change (2002-2007)	Value added (real value)		Rate of change (1997-2002)	Rate of change (2002-2007)
SME business establishments	Did not change industry	-1.3%	4.2%	SME business establishments	Did not change industry	-1.5%	7.3%
	Changed industry	-1.4%	6.8%		Changed industry	-2.1%	10.2%
Large enterprise business establishments	Did not change industry	2.0%	6.2%	Large enterprise business establishments	Did not change industry	2.3%	9.9%
	Changed industry	1.4%	10.7%		Changed industry	0.2%	20.0%
Number of workers		Rate of change (1997-2002)	Rate of change (2002-2007)	Labor productivity (real value)		Rate of change (1997-2002)	Rate of change (2002-2007)
SME business establishments	Did not change industry	-1.6%	0.8%	SME business establishments	Did not change industry	0.1%	6.5%
	Changed industry	-1.5%	1.7%		Changed industry	-0.6%	8.4%
Large enterprise business establishments	Did not change industry	-2.6%	1.7%	Large enterprise business establishments	Did not change industry	5.1%	8.0%
	Changed industry	-3.7%	2.0%		Changed industry	4.0%	17.6%

Source: Recompiled from METI, *Census of Manufactures*.

- Notes:
1. Only business establishments that continued to survive between 1997-2007 and had at least four workers are included in the above.
  2. Value added of enterprises with fewer than 29 workers was calculated using gross value added.
  3. Labor productivity was calculated by dividing value added by the number of workers.
  4. Business establishments of SMEs and business establishments of large enterprises are categorized according to the size of the enterprise to which they belonged in 1997.
  5. "Changed industry" consists of business establishments that changed industry at the major group level in manufacturing between 1997 and 2002, and "did not change industry" consists of business establishments that did not change industry at the major group level during the same period.
  6. "Change of industry" here means a change to the industry accounting for the highest proportion of a business establishment's total value of shipments.
  7. Manufacturing shipments and value added were converted to real values using the "output deflator" and "gross domestic product deflator" published in Cabinet Office, *Annual Report on National Accounts*.

## Case 3-1-12

### A company which changed industries, shifted from subcontractor to manufacturer by developing its own products, and keeps growing

Ohashi Engineering Co., Ltd. is primarily engaged in development, manufacturing and sales of microelectronics mounting equipment using ACF bonding<sup>27)</sup> in Ota City, Tokyo with 88 employees and capital of ¥96 million.

Ohashi Engineering originally used its high technology capabilities in precision sheet metal working, but advanced into the development of its own products as a response to the change in the business environment following the second oil shock. By developing special dies as its first in-house product in 1980 and continuing to develop diverse products ever since, the issues in manufacturing and commercializing products that are competitive on the market became clear.

Ohashi Engineering began to focus on the future potential of thermal contact bonding from the 1990s. The company improved its business performance by investing management resources in that field, and developing potential customers based on market surveys. Their tabletop COG mounting machine<sup>28)</sup> which overturned conventional industry wisdom was given the 1999 Nikkei Superior Products and Services Award by Nikkei Inc. Ohashi Engineering developed the world's first fully automated FOB line<sup>29)</sup> in 2006, and grew into a full-line ACF bonding equipment manufacturer. Ohashi Engineering has succeeded through business diversification, changing industry, and creating new businesses.

President Masayoshi Ohashi says the power behind continuous development as a business lies in (1) working to embody the management philosophy, and drafting and implementing management policies and plans, (2) hiring and training human resources to develop core technologies and leading products, (3) developing own brand products in collaboration with diverse personnel, enterprises and organs, and (4) responding to international standards, environmental issues and corporate social responsibility. He says "By constantly revising management guidelines we can respond to changes in society, clarify new issues, and determine the direction for subsequent business development." Ohashi Engineering drafted its first management plan which called for reinforcing in-house product development in 1980, and the company will begin its 11th medium-term business plan from fiscal 2011.



The world's first fully automated FOB line, developed by Ohashi Engineering

#### ● Enterprise growth due to business changes

The above analysis has shown that the particularly high level of changes of industry in manufacturing stimulates economic renewal and propels high growth. However, we also need to analyze the extent of the impact on Japanese industry as a whole of changes of industry (and not just in manufacturing). Further widening our focus to include entries into new fields and changes of business, we must also explore the impact on enterprise growth of business changes of all kinds. As currently available statistics do not shed much light on the effects of business changes other than changes of industry—i.e., entries into new fields and changes of business—our analysis below makes use of the *Fact-finding Survey of Business Changes*<sup>30)</sup> commissioned by the SME Agency and conducted by Teikoku Databank, Ltd.

We begin with changes in sales, ordinary profit, and number of employees before and after changing business. Fig. 3-1-54 depicts the increases and decreases in sales, ordinary profit, and number of employees after business changes compared with what they were before. This shows that while the majority of enterprises exhibited growth in all three categories following a business change, almost 30% to 40% saw performance and employment

deteriorate.

If we consider changes in sales, ordinary profit, and number of employees according to each category of business change—entry into new fields, change of line of business, and change of industry—so as to analyze the effects of each on subsequent growth, we find that more ambitious business changes (from small-scale entries into new fields at one end to large-scale changes of industry at the other) tend to be associated with declines in sales and numbers of employees, but increased or unchanged levels of ordinary profit. This is likely to be because, in comparison with entering new fields of business while maintaining existing operations, changes of business or industry force enterprises to transform themselves to a greater extent. Thus while a higher proportion reduce sales and numbers of employees compared with what they were before, the opportunities for overhauling management made possible by business changes lead to improvements in enterprises' profitability. This suggests that business changes are not only significant for expanding business and increasing sales and numbers of employees, as they can also lead to downsizing that results in improvements in profitability.

27) Conductive mounting using anisotropic conductive film.

28) Equipment for mounting and bonding IC chips on liquid crystal panel glass substrates.

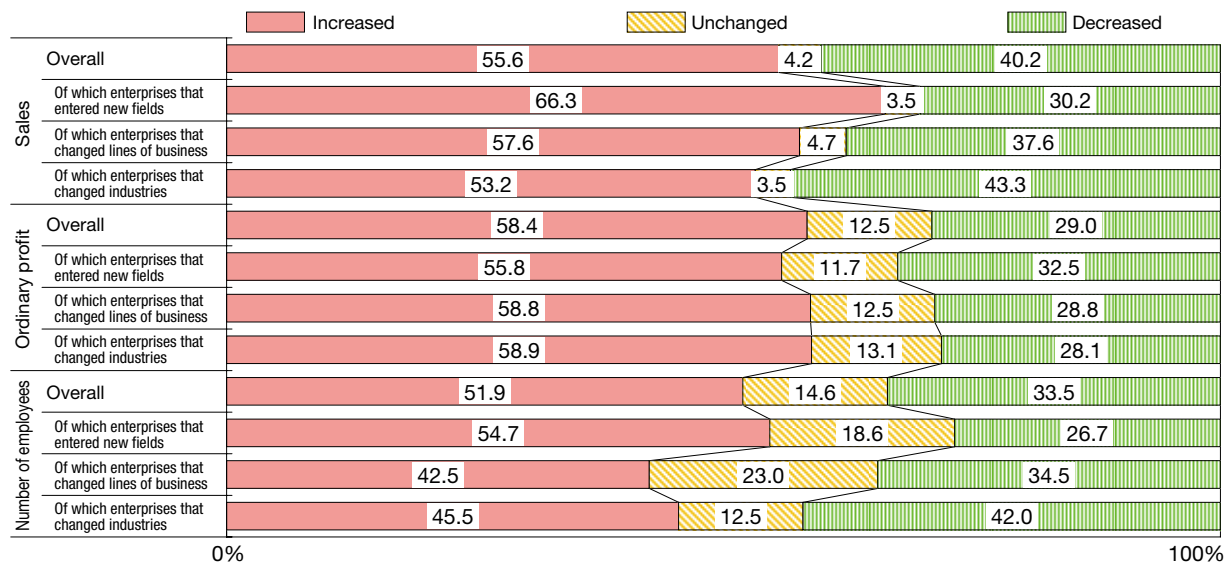
29) Equipment for mounting and bonding small liquid crystal panels and other parts on film used in the assembly of cell phones, etc.

30) Commissioned by the SME Agency and conducted by Teikoku Databank, Ltd. It consisted of a questionnaire survey of 10,000 enterprises in December 2010. The response rate was 26.8%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.



**Fig. 3-1-54 Sales, ordinary profit, and number of employees after business change by type of business change**

While over half of all enterprises that changed business exhibited growth in sales, ordinary profit, and number of employees, some enterprises saw declines. More ambitious business changes tend to be associated with declines in sales and numbers of employees, but increased or unchanged levels of ordinary profit.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.  
 Notes: 1. “Enterprises that changed industries” consists of those enterprises whose industries before and after changing could be identified. “Enterprises that entered new fields” consists of those enterprises whose targeted new industry could be identified.  
 2. “After business change” refers to when the effects of a change of business have become apparent.

We have thus seen that changes of business at the major group level are particularly common in manufacturing, that such changes stimulate economic renewal, and that enterprises succeed in expanding their businesses and improving the profitability of their operations as a result of changing business. In view of the fact that, as observed in Section 1, entries and withdrawals are somewhat low in

Japan by international comparison, bold business changes by existing enterprises play an extremely significant role in stimulating market renewal and raising enterprises’ growth potential. In the following subsection, we discuss in detail the obstacles to promoting business changes and the action being taken to tackle them through an analysis of the results of the *Business Change Survey*.

### [3] Problems encountering when changing business and responses

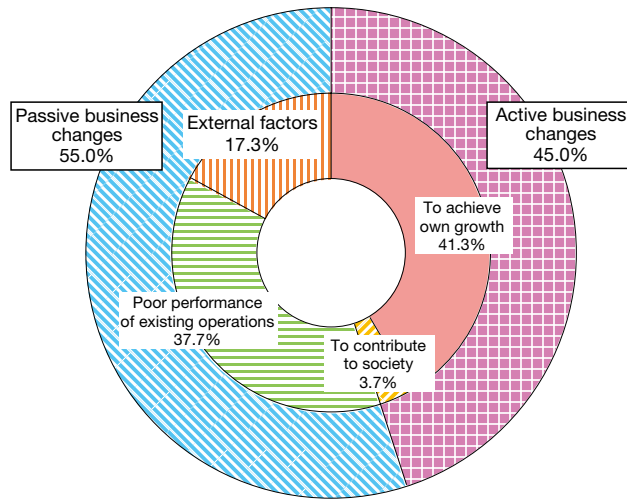
The preceding subsection described the important contribution made by changes of business to stimulating the renewal in the Japanese economy and the growth and regeneration of enterprises. It is not just new enterprises entering the marketplace that lie at the root of economic growth. Existing enterprises can also act as engines of economic growth by tackling new ventures with entrepreneurial flare to achieve further growth or restore their fortunes. In this subsection, we analyze the current state of business changes in Japan and the problems encountered along the way using the results of the *Business Change Survey*, and discuss what measures are needed to promote changes of business.

#### ● Classification of changes of business

Changes of business may be classified into the following types according to the motives and purposes behind them: “active business changes” intended to “achieve own growth,” “contribute to society,” and other such purposes, and “passive business changes” prompted by “poor performance of existing operations” and “external factors,” such as the wishes of business partners, corporate restructuring, or policy of parent company. The *Business Change Survey* indicates that passive business changes marginally exceed active business changes. A more detailed breakdown reveals, however, that business changes for the purpose of growth exceed business changes prompted by the poor performance of existing operations (Fig. 3-1-55).

**Fig. 3-1-55 Classification of changes of business**

It is not unusual for changes of business to be prompted by growth considerations as well as simply the poor performance of existing operations.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.

- Notes:
1. "Business changes" here consists of entries into new fields, changes of line of business, and changes of industry.
  2. External factors include reasons such as the wishes of business partners, corporate restructuring, and policies of parent companies.

**Case 3-1-13**

**A company that advanced from machinery repair to manufacturing textile machines and semiconductor fabrication equipment, seeking ongoing growth**

Takatori Corporation is primarily engaged in manufacturing and sales of semiconductor and liquid crystal equipment, wire saws<sup>31)</sup> and textile machinery in Kashihara City, Nara Prefecture with 220 employees and capital of ¥963 million.

Takatori Corporation was founded by Chairman Osho Takatori in 1950 as a machinery repair company. With a policy of "always advancing into growth fields," in 1951 the company entered the textile machinery business which was experiencing outstanding growth at that time. Sales of Takatori's automated panty hose sewing machines grew to the point that they were being exported to over 60 countries worldwide. At the height of that business, in 1983, Chairman Takatori had the company advance into the growing business field of manufacturing semiconductor fabrication equipment.

In 1990, Takatori began development and sales of multi-wire saws used for high-precision cutting of semiconductor carbide materials and ceramics. The company subsequently gained a 60% global share of the crystal processing market for cell phones, and its mid-sized machine, with Takatori's proprietary slicing with rocking motion,<sup>32)</sup> has an over 90% share of the global LED and power semiconductor sapphire, silicon carbide and gallium nitride processing market. These materials are extremely hard, and can only be cut with Takatori's multi-wire saws which slice with a rocking motion. The LED market has been rapidly expanding with the rising demand for energy conservation parts in recent years, which includes the use of LEDs for liquid crystal backlights, and shipments of Takatori's multi-wire saws—which enjoy an oligopoly in processing the sapphires substrates used in LEDs—have been rapidly increasing.

Takatori is presently participating in research being conducted by the National Institute of Advanced Industrial Science and Technology (AIST) Tsukuba Center on silicon carbide used in energy conservation type semiconductors, which was selected by the Kansai Bureau of Economy, Trade and Industry as a "strategic basic technology improvement support project." The company is working to develop more sophisticated sapphire processing technologies.



Sapphire cutting using a Takatori Corporation multi-wire saw.

31) Cutting equipment which uses diamond wire.

32) This machine uses a wire saw to slice materials in an arc.

### Case 3-1-14

#### A construction company that entered the nursing care and farming fields in response to the decline in public works, and is realizing synergies

Horiuchi Gumi Co., Ltd. is a general contractor in Sasebo City, Nagasaki Prefecture with 105 employees and capital of ¥80 million that has advanced into the nursing care and farming industries.

Horiuchi Gumi was responsible for construction works of the Matsuura Railway of the former Japanese National Railways from before the war, and developed business rooted in the local community centered on public works from the time it was formally established as a company in 1950. As the volume of public works orders later declined, Horiuchi Gumi decided to enter the nursing care and farming businesses while it still had surplus personnel, capital and facilities.

In the nursing care field, Horiuchi Gumi established a social welfare corporation in 1998, and opened and began operating the "Niji no Sato" (Rainbow Village) special nursing home for the elderly in 1999. In farming, the company cultivates blueberries, mangoes, olives and other crops. From 2007, the blueberries are being grown using "drip pot cultivation" which reduces damage from harmful insects while producing safe, high-quality fruit with reduced use of agricultural chemicals. The olive business uses abandoned farmland to meet market demand for high-quality edible olive oil and olive oil for cosmetics use. Horiuchi Gumi also plans to use olive trees for landscaping, by planting olives at churches and other locations in the prefecture in an effort to combine tourism with agriculture.

The company's expansion into nursing care and agriculture has also led to new orders in its mainline construction business, bringing a recovery in sales and employment. Horiuchi Gumi expects that its expansion into new business fields will continue to have a synergy effect in increasing construction orders, and contribute to regional economy and the further development of the company.



Horiuchi Gumi's "Niji no Sato" special nursing home for the elderly (left), blueberry drip pot cultivation (center), and fruit (right)

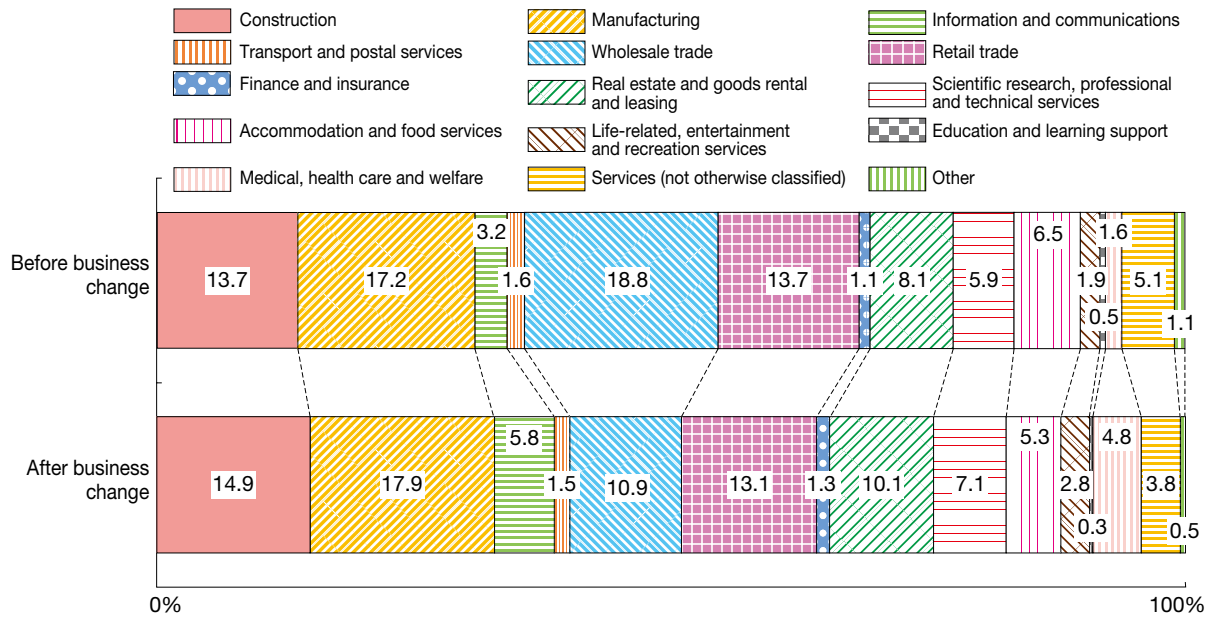
As active business changes are most likely intended primarily to expand operations and passive business changes primarily to improve and regenerate operations, these two types need to be distinguished for analysis in order to accurately ascertain the state of changes of business and problems encountered in the process of making such changes. Below, therefore, we explore the current state of business changes taking as our starting point this distinction between active business changes and passive business changes.

The breakdowns of industries before and after business changes according to whether they were active

or passive in type, shown in Figs. 3-1-56 (1) and 3-1-56 (2), reveal growth in industries such as information and communications and medical, health care and welfare. We may surmise from this that enterprises are seeking further growth in these growth fields. In the case of passive business changes, on the other hand, there is an increase in the proportion accounted for by real estate and goods rental and leasing. This is likely to be driven by the large number of enterprises that seek to survive by downsizing their poorly performing existing operations and making use of their real estate holdings.

**Fig. 3-1-56 (1) Industries before and after business changes (active)**

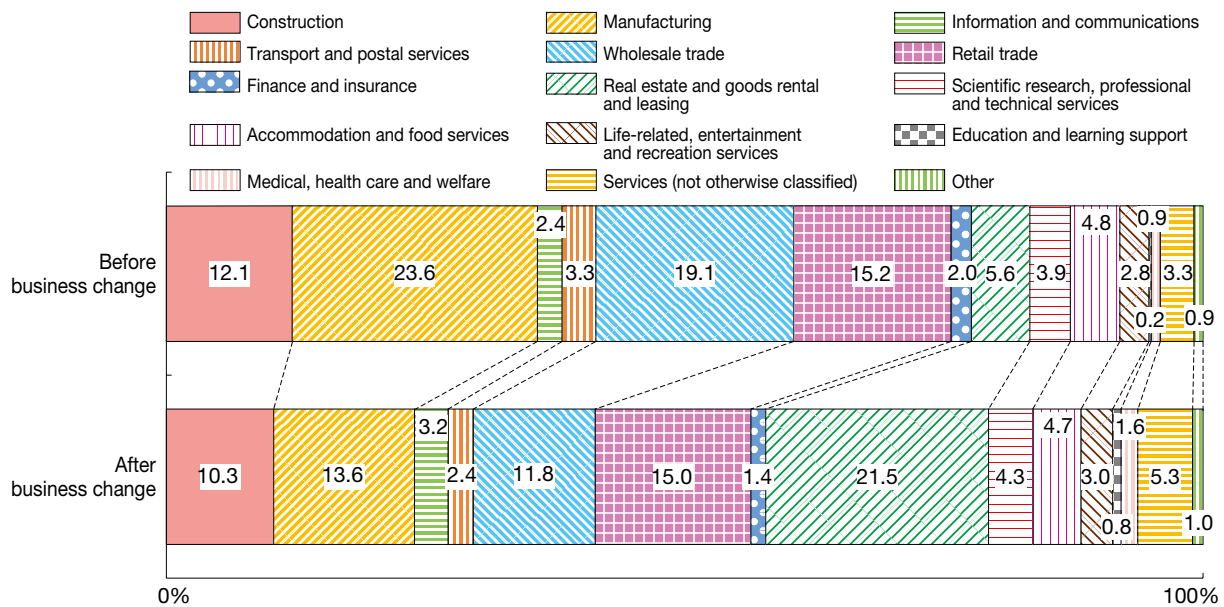
Active business changes result in an increased proportion of enterprises in growth fields such as information and communications and medical, health care and welfare.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.  
 Notes: 1. "Business changes" here consists of entries into new fields, changes of line of business, and changes of industry.  
 2. Unclassifiable industries, and unknowns are excluded from the above.

**Fig. 3-1-56 (2) Industries before and after business changes (passive)**

Passive business changes result in a considerable increase in the proportion accounted for by real estate and goods rental and leasing.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.  
 Notes: 1. "Business changes" here consists of entries into new fields, changes of line of business, and changes of industry.  
 2. Unclassifiable industries, and unknowns are excluded from the above.

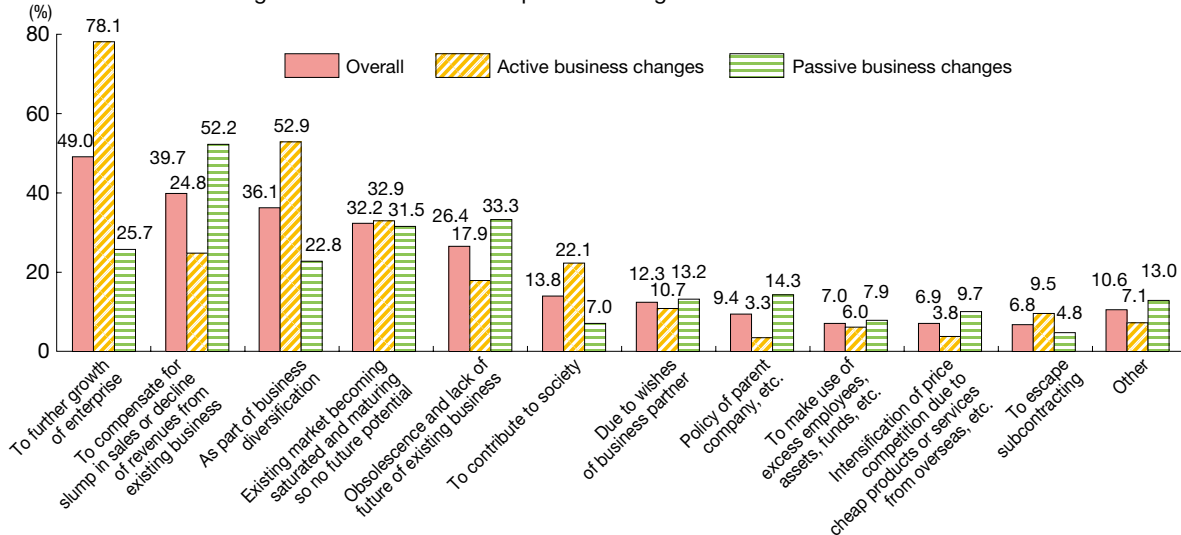
**Motives and purposes of changes of business and reasons for choice of field of business**

The results of more detailed questioning about the motives and purposes of changes of business are shown in Fig. 3-1-57. This reveals the commonest motives and purposes for embarking on such changes to be "to

further growth of enterprise" and "as part of business diversification" in the case of active changes, and "to compensate for slump in sales or decline of revenues from existing business" and "obsolescence and lack of future of existing business" in the case of passive changes.

**Fig. 3-1-57 Motives and purposes of changes of business**

The commonest motives and purposes for embarking on changes of business are “to further growth of enterprise” and “as part of business diversification” in the case of active changes, and “to compensate for slump in sales or decline of revenues from existing business” and “obsolescence and lack of future of existing business” in the case of passive changes.



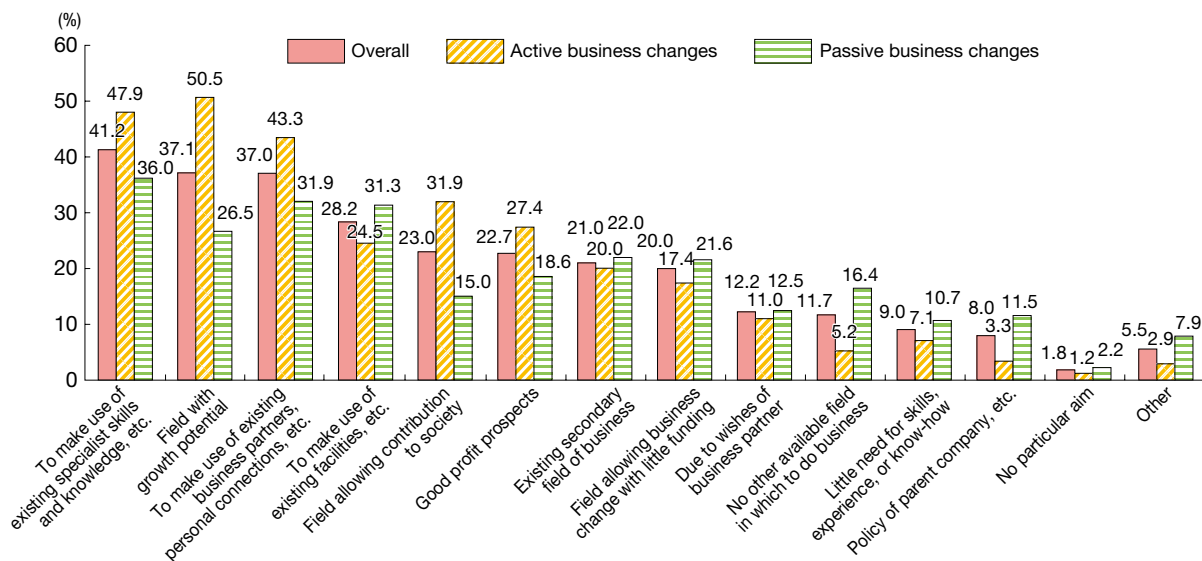
Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.  
 Notes: 1. “Business changes” here consists of entries into new fields, changes of business, and changes of industry.  
 2. Totals do not necessarily sum to 100 due to multiple responses.

Next, let us examine enterprises’ reasons for their choice of field of business. According to Fig. 3-1-58, many enterprises choose fields in which they can make use of existing specialist capabilities and human or physical resources, such as specialist skills and knowledge, business partners and personal connections, and facilities. Breaking the results down into those for active and passive types shows the commonest choice of field for active business

changes to be “field with growth potential,” indicating the positive approach to growth taken by such enterprises. In the case of passive business changes, higher proportions of enterprises seek “to make use of existing facilities, etc.” or had “no other available field in which to do business,” indicating a higher proportion of enterprises choose their fields of business for negative reasons.

**Fig. 3-1-58 Reasons for choice of field of business**

The commonest choice of field for active business changes is “field with growth potential,” while higher proportions of passive business changes than active ones are selected “to make use of existing facilities, etc.” or due to having “no other available field in which to do business.”



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.  
 Notes: 1. “Business changes” here consists of entries into new fields, changes of business, and changes of industry.  
 2. Totals do not necessarily sum to 100 due to multiple responses.

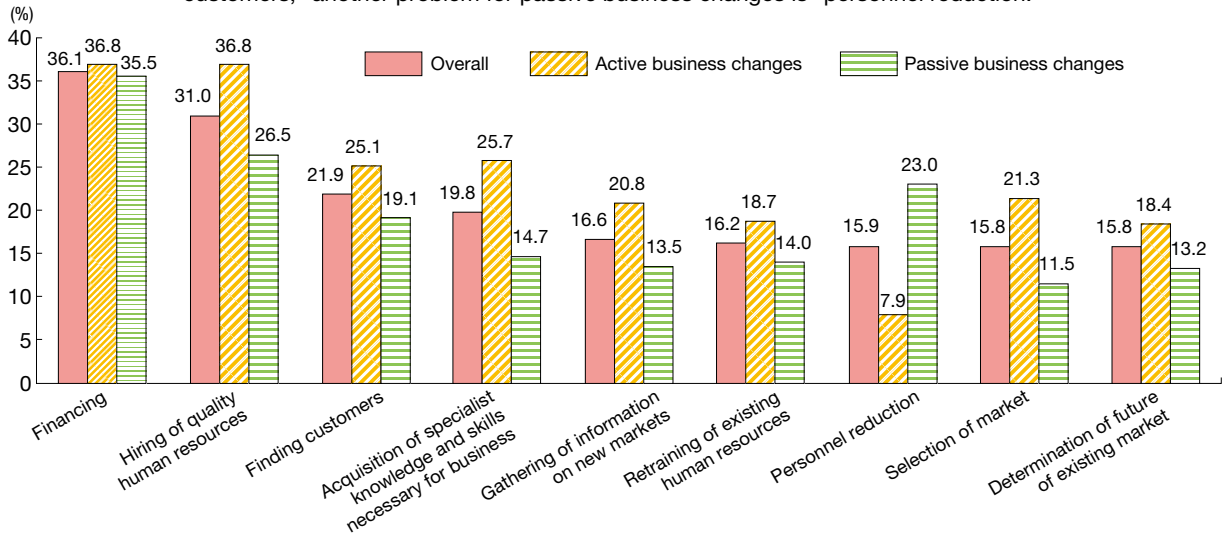
● **Problems encountered when changing business**

Enterprises' responses regarding the problems encountered when changing business are shown in Fig. 3-1-59. This shows the principal problems to be "financing," "hiring of quality human resources," and "finding customers." It thus appears that business changes

are afflicted by similar problems to those encountered at startup. "Personnel reductions" can also be seen to be a major problem during passive business changes, indicating that treatment of existing personnel is a problem when business changes are accompanied by downsizing.

**Fig. 3-1-59 Problems encountered when changing business**

While the principal problems are "financing," "hiring of quality human resources," and "finding customers," another problem for passive business changes is "personnel reduction."



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.

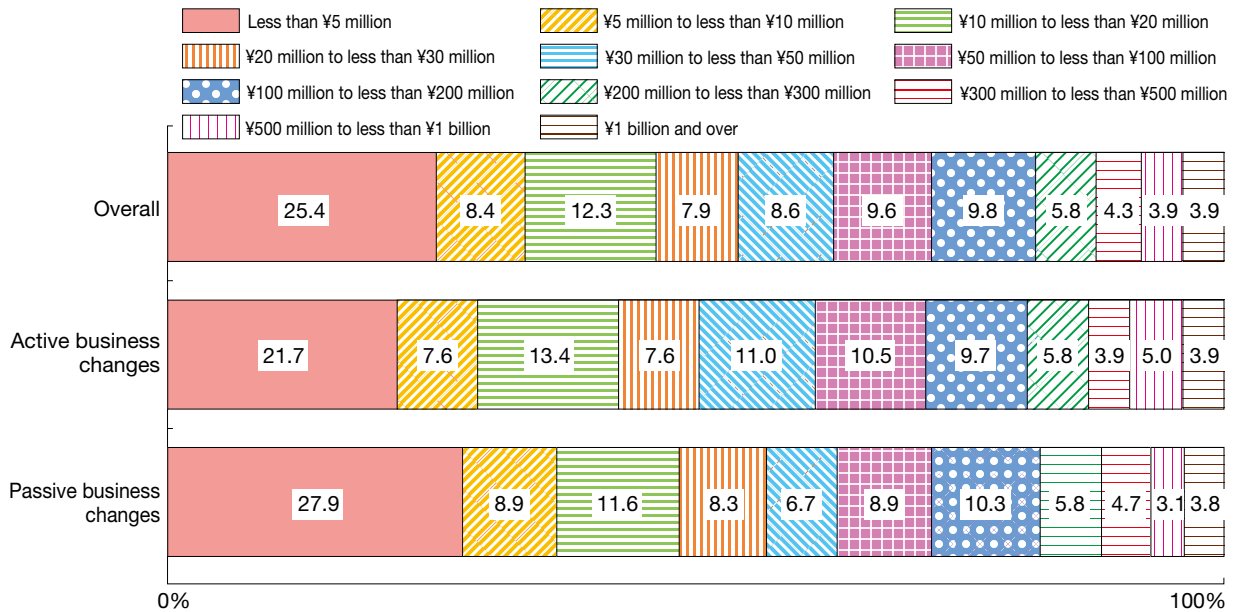
- Notes:
1. Only items chosen by at least 15% of the respondents are shown.
  2. "Business changes" here consists of entries into new fields, changes of business, and changes of industry.
  3. Totals do not necessarily sum to 100 due to multiple responses.

As financing is the commonest problem encountered when changing business, Fig. 3-1-60 shows the distributions of expenditures required for changes of business. While overall around 30% of enterprises require less than ¥10 million, some 30% need at least

¥100 million. Breaking down the responses into those for active and those for passive business changes, we find that proportionately more passive than active ones require less than ¥10 million, which suggests that many enterprises pursue passive business changes with lower costs.

**Fig. 3-1-60 Expenditure required for changes of business**

While around 30% of enterprises require less than ¥10 million, some 30% need at least ¥100 million. Many enterprises pursue passive business changes with lower costs.



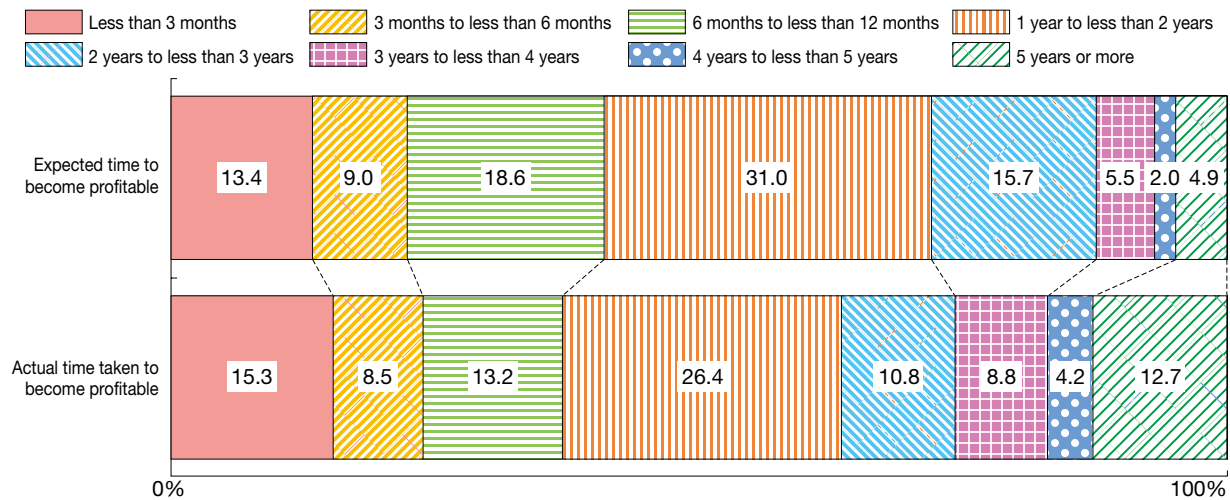
Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.  
 Note: "Business changes" here consists of entries into new fields, changes of business, and changes of industry.

Looking at the relationship between the expected time taken for a new business to become profitable and the actual time taken shows that turning a profit tends to take longer than anticipated (Fig. 3-1-61). If an existing business is downsized to concentrate management resources on a new business, an enterprise can run into

financing difficulties as revenue from the existing business declines while the change of business is in progress. If it tends to take longer for a new business to get on track than anticipated, then financing during the transition period is particularly important to an enterprise.

**Fig. 3-1-61 Expected and actual time taken for new business to become profitable**

New businesses take longer than anticipated to become profitable.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.  
 Notes: 1. Only enterprises whose new businesses had already become profitable are included in the above.  
 2. "Business changes" here consists of entries into new fields, changes of business, and changes of industry.

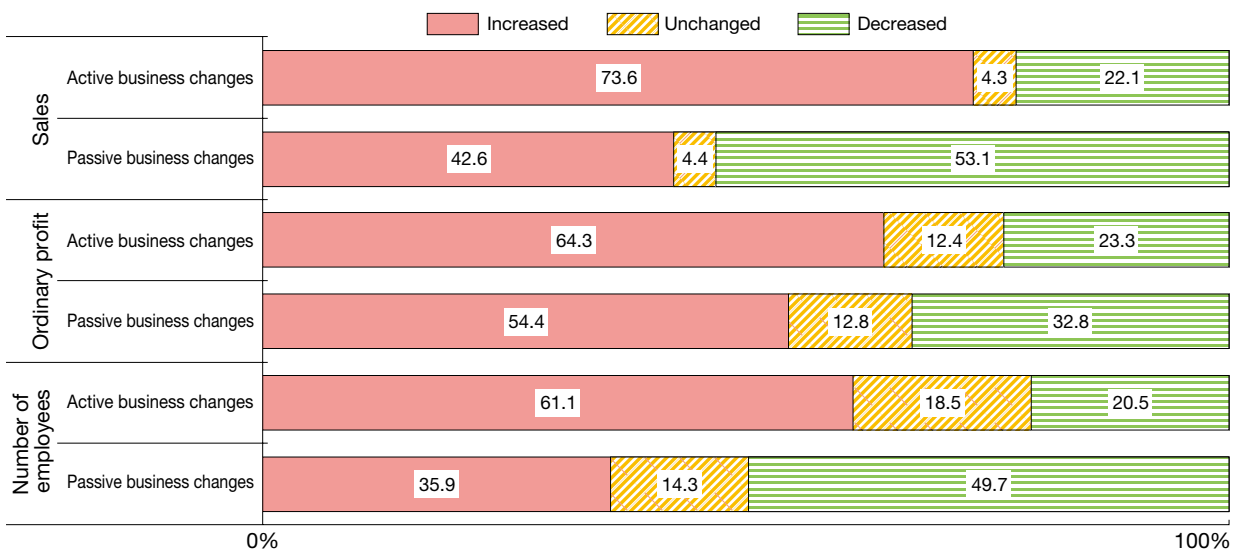
● **Effects of changes of business**

Fig. 3-1-54 showed that the majority of enterprises that changed business exhibited increased sales, ordinary profit, and numbers of employees, and that more ambitious business changes tend to be associated with declines in sales and numbers of employees, but increased or unchanged levels of ordinary profit. Sales, ordinary profit, and number of employees before and after changing business are shown for active and passive types in Fig. 3-1-

62. This reveals that many enterprises that engage in active business changes increase their sales, ordinary profit, and number of employees. Around half of all enterprises that engage in passive business changes, on the other hand, have reduced sales and numbers of employees, while a majority increased their ordinary profit. This suggests that they are increasing their profitability while downsizing their operations.

**Fig. 3-1-62 Sales, ordinary profit, and number of employees after changing business (by type)**

A higher proportion of passive than active business changers have reduced sales and numbers of employees, but a majority increased their ordinary profits.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.

- Notes:
1. "Business changes" here consists of entries into new fields, changes of business, and changes of industry.
  2. "After business change" refers to when the effects of a change of business have become apparent.

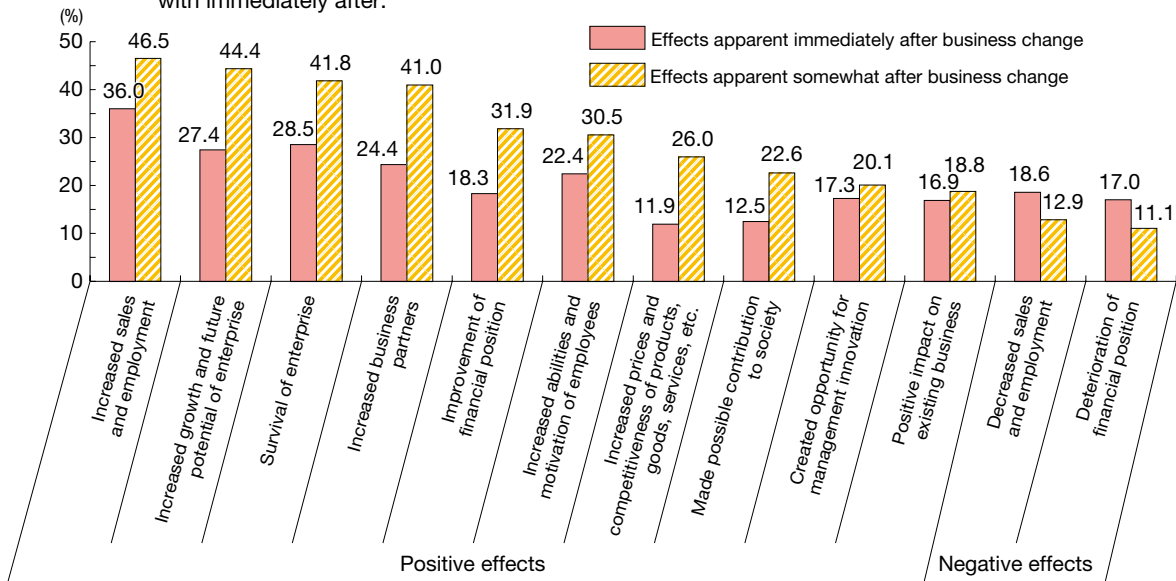
Having examined changes in sales, ordinary profit, and number of employees resulting from changes of business, we now look at enterprises' perceptions of the other effects of such changes at each of two stages: immediately after and somewhat after change, as shown in Fig. 3-1-63. From this it can be seen that enterprises experience both positive and negative effects immediately after and somewhat after changing business. These include positive effects, such as "survival of enterprise" and "increased growth and future potential of enterprise" as well as "increased sales and employment," and negative effects, such as "decreased

sales and employment" and "deterioration of financial position." However, a higher proportion of enterprises report positive effects somewhat after changing business compared with immediately after. Furthermore, the proportion of enterprises reporting negative effects in terms of sales, employment, and financing declines over time. These results show that enterprises briefly experience negative effects immediately after business changes, but that they gradually experience more positive effects as time passes.



**Fig. 3-1-63 Effects immediately after and somewhat after changing business**

A higher proportion of enterprises report positive effects somewhat after changing business compared with immediately after.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.

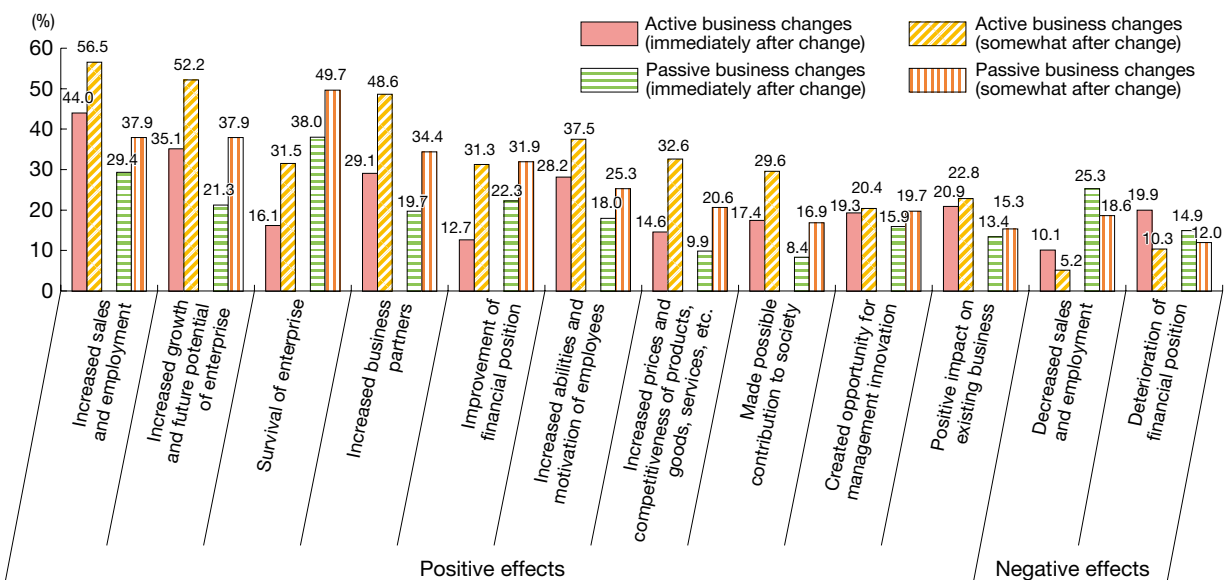
- Notes:
1. Only items chosen by at least 10% of the respondents are shown.
  2. "After business change" refers to when the effects of change of business have become apparent.
  3. "Change of business" here consists of entries into new fields, changes of line of business, and changes of industry.
  4. Totals do not necessarily sum to 100 due to multiple responses.

Dividing up the effects apparent immediately after and somewhat after changes of business according to whether the changes were active or passive reveals that high proportions of active business changers report "increased sales and employment" and "increased growth and future potential of enterprise," and high proportions of passive

business changers report "survival of enterprise." In other words, active business changes result in further growth, while enterprises that engage in passive business changes succeed in rebuilding their businesses and ensuring the survival of their enterprises.

**Fig. 3-1-64 Effects immediately after and somewhat after changing business (by type)**

About the effects of changes of business, high proportions of passive business changers report "increased sales and employment" and "increased growth and future potential of enterprise," and high proportions of passive business changers report "survival of enterprise."



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.

- Notes:
1. Only items chosen by at least 10% of the respondents are shown.
  2. "After business change" refers to when the effects of change of business have become apparent.
  3. "Change of business" here consists of entries into new fields, changes of line of business, and changes of industry.
  4. Totals do not necessarily sum to 100 due to multiple responses.

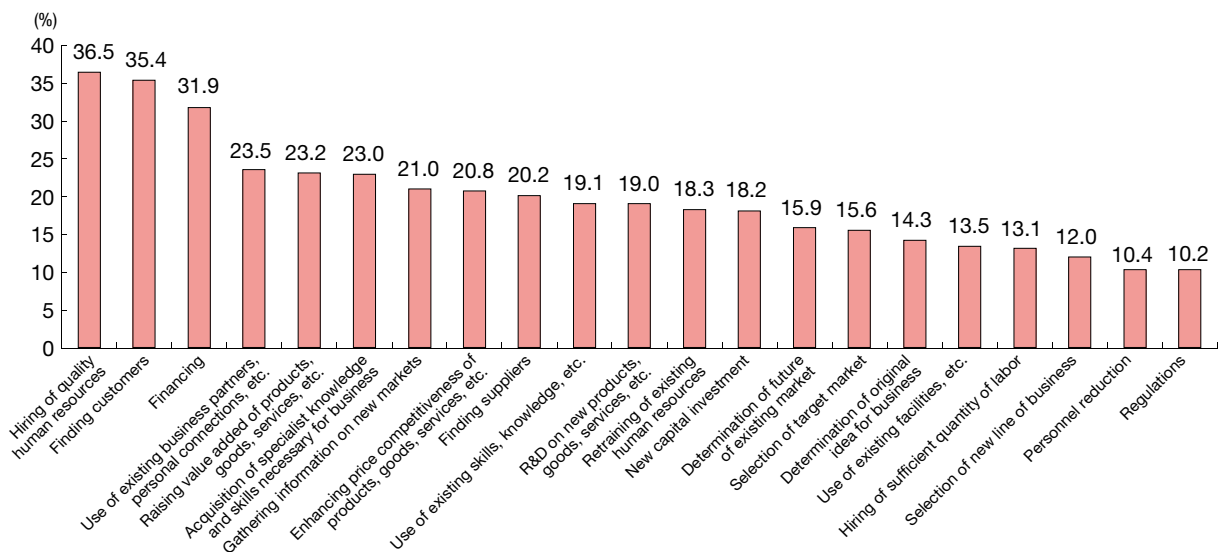
● **Business change success factors**

Having described the effects of changes of business, we now examine the factors that enterprises that have successfully engaged in such changes consider to have contributed to their success. Fig. 3-1-65 depicts factors behind the success of changes of business, from which it may be observed that the commonest include “hiring of quality human resources,” “finding customers,” and “financing.” As Fig. 3-1-59 showed, these three factors are also the three commonest problems encountered when

engaging in changes of business. But while financing is the most commonly reported problem encountered when changing business, it comes behind hiring of human resources and finding customers as a success factor, which suggests that the fate of a change of business depends more on access to capable human resources and the ability to find customers in new markets than financing, which is the biggest problem encountered when changing business.

**Fig. 3-1-65 Factors behind success of changes of business**

Commonly reported factors behind the success of changes of business include “hiring of quality human resources,” “finding customers,” and “financing.”



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.

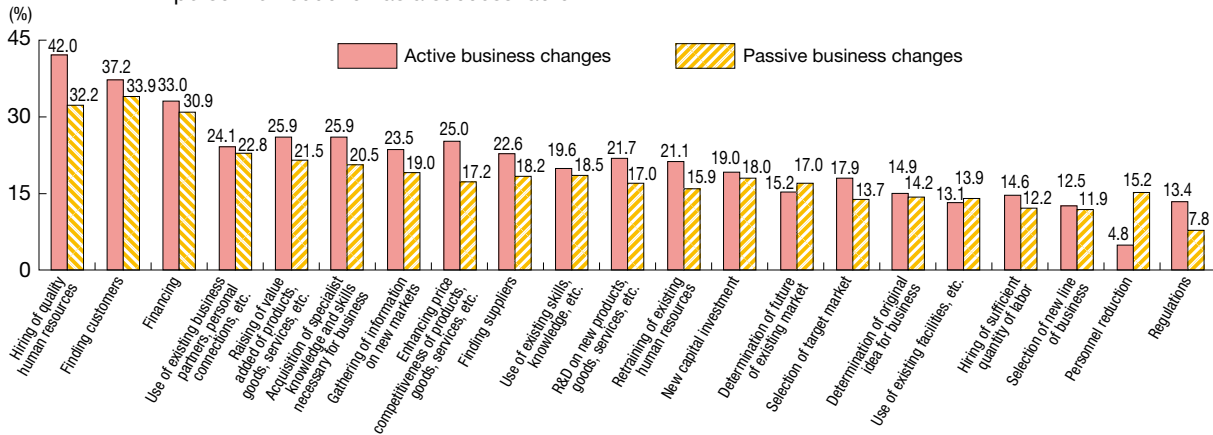
- Notes:
1. Only enterprises that reported that their changes of business had produced results are included in the above.
  2. Only items chosen by at least 10% of the respondents are shown.
  3. “Change of business” here consists of entries into new fields, changes of line of business, and changes of industry.
  4. Totals do not necessarily sum to 100 due to multiple responses.

The breakdown of business change success factors for active and passive types shown in Fig. 3-1-66 reveals that enterprises cite the above hiring of human resources, finding of customers, and financing as success factors more commonly in the case of active business changes

than passive business changes. Passive business changes, on the other hand, are characterized by the relatively high proportion of enterprises that identify personnel reduction as a success factor.

**Fig. 3-1-66 Factors behind success of business changes (by type)**

Comparatively more active business changers identify hiring of human resources, finding customers, and financing as success factors, but relatively high proportions of passive business changers see personnel reduction as a success factor.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.  
 Notes: 1. Only enterprises that reported that their changes of business had produced results are included in the above.  
 2. Only items chosen by at least 10% of the respondents are shown.  
 3. "Business changes" here consists of entries into new fields, changes of line of business, and changes of industry.  
 4. Totals do not necessarily sum to 100 due to multiple responses.

**Case 3-1-15**

**A company that trained quality personnel and manufactures high-value-added denim fabric**

Nihon Menpu Co., Ltd. is a company based in Ibara City, Okayama Prefecture with 60 employees and capital of ¥20 million that has arranged a system for the integrated production of blue jeans, with all processes in house.

When President Shinji Kawai participated in a study tour of Europe sponsored by the Japan External Trade Organization about 20 years ago, he was left with the strong impression that only those firms with in-house integrated production survived the economic decline in the Tuscany region of Italy. From that time, his goal was to accumulate the know-how required to bring all the manufacturing processes in house. In 1997, Nihon Menpu placed all the processes up through non-shrink treatment in house with the introduction of new non-shrink treatment equipment. In 2004, the company finally attained complete integrated production through prewashing, with investment in equipment for this final process. The accumulation of knowledge from this integrated production has led to the development and marketing of high-value-added materials that can withstand the competition from low-priced foreign goods. The company's fastidious quality is renowned worldwide, and their fabric is mostly used in premium jeans which sell for around ¥30,000 per pair. They supply denim to famous brands including Ralph Lauren, Paul Smith and Jacob Cohen.

President Kawai says, "It is the pride of each worker as a craftsman that supports our exceptional quality." His office displays photos of employees who have worked for the company for at least 30 years.

Nihon Menpu uses old-style shuttle looms to produce its denim fabric which has a unique feel. It takes a long period of about 20 years to acquire the requisite production skills including the skills to operate this type of equipment. It is common to see 60-year-old veterans teaching newly hired 18-year-old workers at the company's factory. Using these accumulated skills and human resources, Nihon Menpu has successfully developed the world's first high-value-added denim fabric incorporating gradation denim fiber. This technique colors individual threads in three layers, creating a layered color structure that can presently only be produced by Nihon Menpu. According to President Kawai, "SMEs cannot survive through the mass production of low-priced goods. We only aim at high customer value markets by producing differentiated, high-quality goods."



Jeans produced using the gradation denim fiber developed by Nihon Menpu

**Case 3-1-16**

**A company that made use of existing products to enter the environmental field, and successfully developed distribution channels by exhibiting at the Aichi Expo**

Oumikagakutouki Inc. is a long-established company founded in 1874 located in Shigaraki Town, Koka City, Shiga Prefecture, which is renowned for the production of ceramics, with 50 employees and capital of ¥95 million. The company mostly produces ceramic tiles for building exterior and floors. With the uncertain outlook for the construction industry, Oumikagakutouki took note of the rise of the building greening business accompanying heightened interest in environmental issues, and advanced into the new business field of greening the walls of buildings making use of its existing ceramic tile products.

Since the company was founded, Oumikagakutouki has shifted its business along with the changing demands of the times, producing pots used to boil cocoons in silk production using ceramics technologies and later manufacturing exterior building tiles. The company then turned its attention to the growing environmental field, and launched its building greening business beginning with affiliated companies. Oumikagakutouki successfully developed the "GIF-T" green insulation foam, which is made from a porous ceramic foam core and a ceramic shell frame, and uses *Racomitrium japonicum* moss for insulation.

GIF-T makes use of technology developed over many years. The exterior tile frame is ceramic and the core where the moss is planted uses porous ceramics. These are fired and fused together. *Racomitrium japonicum* moss was chosen for the insulation moss because it grows in sand and rocks, and can tolerate dry conditions. Oumikagakutouki had no moss experts, so employees attended academic conferences, visited university researchers and otherwise persistently collected information, and the company succeeded in using the moss for building wall greening.

The company's pots used to boil cocoons for silk production were shown at the Paris Expo of 1900, their exterior tiles were used in the Tower of the Sun at the 1970 Osaka Expo, and their GIF-T was used in the huge Bio-lung green wall at the 2005 Aichi Expo. This attracted attention, and helped Oumikagakutouki to expand sales routes nationwide.



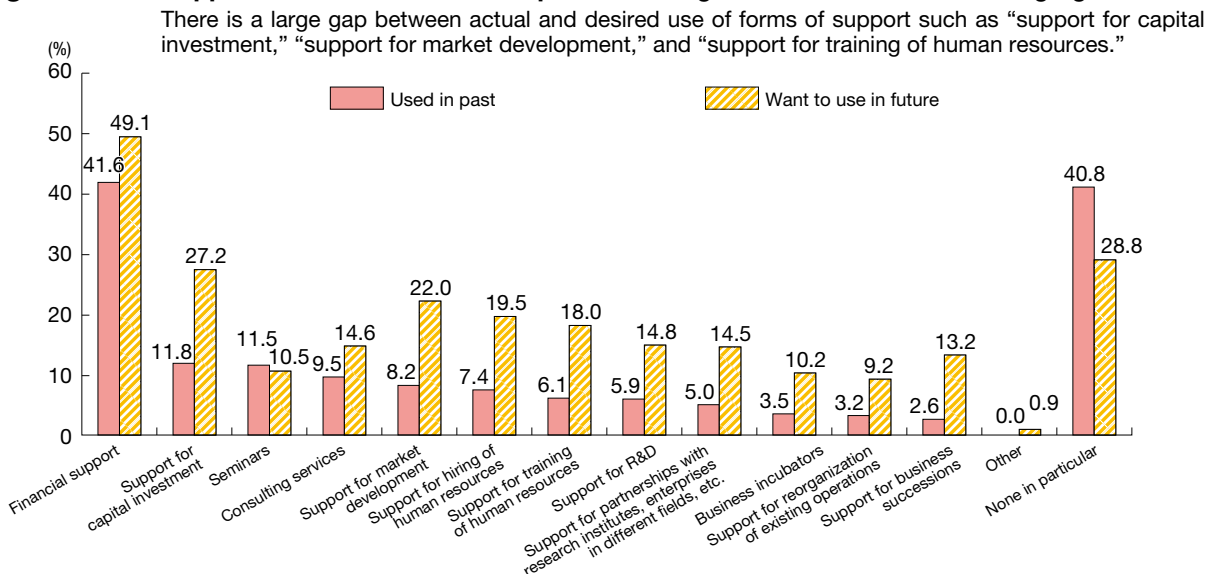
The huge green wall Bio-lung at the 2005 Aichi Expo

**Public support for business changes**

We next look at what support measures offered by the central and local governments and other public bodies are used by enterprises when they change business, and what measures they want to be able to use in the future. Regarding support measures that have been used, Fig. 3-1-67 shows that "financial support" is widely used by enterprises when they engage in business changes. As can also be seen, however, a high proportion of enterprises say that they used "none in particular." Analyzing these results in conjunction with those on the measures that enterprises

seek to use in the future reveals a large disparity between actual and desired use of forms of support such as "support for capital investment," "support for market development," "support for hiring of human resources," and "support for training of human resources," which suggests that these areas require greater policy support. In view the fact that, as Fig. 3-1-65 showed, finding customers and hiring of human resources are considered factors behind the success of business changes, it is important that support be provided for development of markets, hiring, and training.

**Fig. 3-1-67 Support measures used in the past and sought in the future when changing business**



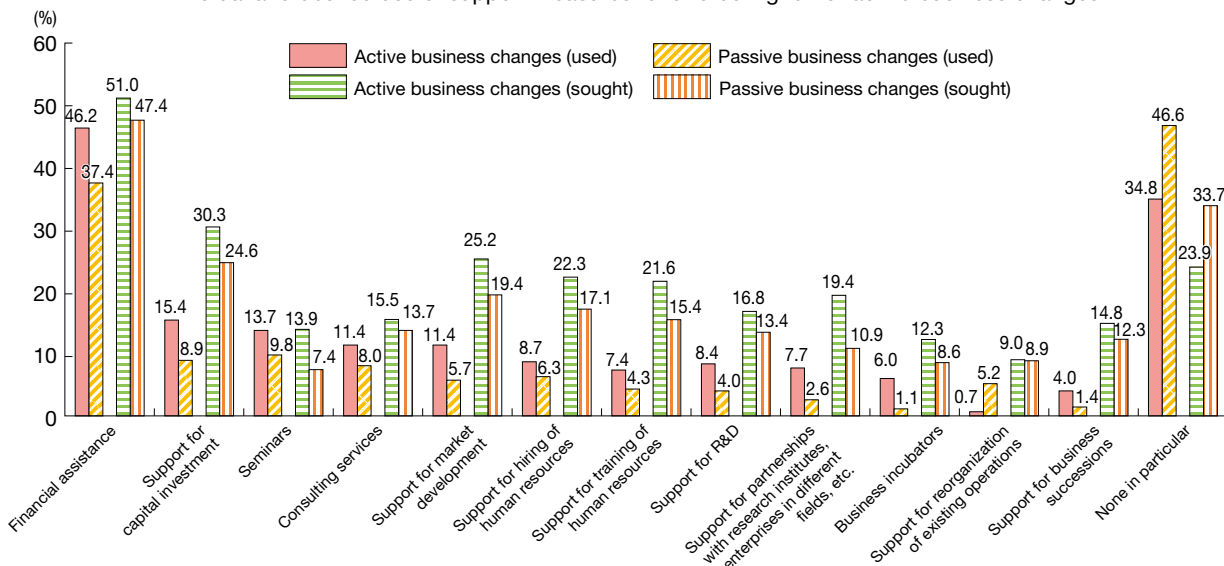
Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.  
 Notes: 1. "Business changes" here consists of entries into new fields, changes of line of business, and changes of industry.  
 2. Totals do not necessarily sum to 100 due to multiple responses.

The support measures used in the past and sought in the future when changing business are shown according to type of change (active or passive) in Fig. 3-1-68. This reveals that the proportions of actual and desired use tend

to be higher for active business changes, revealing that passive business changers are also more passive in their use of support measures.

**Fig. 3-1-68 Support measures used in the past and sought in the future when changing business (by type)**

Actual and desired use of support measures tend to be higher for active business changes.



Source: Teikoku Databank, Ltd., *Fact-finding Survey on Business Changes* (December 2010), commissioned by SME Agency.

Notes: 1. "Business changes" here consists of entries into new fields, changes of line of business, and changes of industry.  
2. Totals do not necessarily sum to 100 due to multiple responses.

● **Successful business changes and steps to support changes**

Above we analyzed in detail the business change activities of enterprises in Japan relying primarily on the results of the *Business Change Survey*. To recapitulate, it was observed that: motives, purposes, and problems differ according to whether changes of business are active or passive in type; financing, staffing, and finding customers all present problems when changing business, with financing being a particularly important factor as the tendency for new businesses to take longer to become profitable than anticipated puts pressure on enterprises' financial positions; commonly reported factors behind the success of changes of business are hiring of human resources, finding customers, and financing; and financial support is a commonly used form of support for changes of business, but there also exist many enterprises that do not use such support. The next questions that we ask are: What points do enterprises pay attention to when they embark on business changes? And what forms of support provided by the Government and other agencies are important?

Firstly, enterprises about to change business should avoid excessive optimism and instead prepare detailed plans for the change and approach the task bearing in mind that the new project will usually take longer to turn

a profit than anticipated. They should also bear in mind that factors such as "hiring of quality human resources" and "finding customers" are more commonly identified as business change success factors by enterprises than "use of existing business partners, personal connections, etc." and "use of existing skills, knowledge, etc." While enterprises may find it easier to change business by moving into a new field in which they can make use of their existing resources and other strengths, they may not necessarily be able to take advantage of these strengths in the new field. Rather, they should pay attention to the fact that it is those factors that are important when starting up a new business that are the keys to success, such as human resources, markets, and funds. In Section 1, it was observed that entrepreneurs' past experience and personal connections are often success factors when starting a business. When changing business, however, the keys to success are human resources, markets, and funds rather than factors such as personal connections and skills developed before the business change.

What then of the specific forms of support provided to assist changes of business? In April 2005, the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises was put into effect to provide across-the-board support for SMEs' new business activities. Under this act, SMEs draw up business innovation plans

in accordance with basic principles established and published by the Government. Once these plans have been officially approved by their prefectural governments, they can then receive various forms of support, such as low-interest loans from the JFC, financial support specially provided for under the Small and Medium Enterprise Credit Insurance Act, and assistance with market development (such as access to market development coordination services). In FY2010, 4,436 enterprises obtained approval for their business innovation plans (making a cumulative total of 45,415 enterprises since 1999), and SMEs are expected to continue to make use of this system to facilitate their entry into new fields and other changes of business. The above forms of support are targeted mainly at active business changes pursued to attain growth. However, assistance is also provided in the form of “enterprise revitalization support” to assist passive business changes undertaken to improve or turn around operations (including the discontinuation of unprofitable operations to focus resources on profitable operations) undertaken by enterprises that still have profitable operations but whose financial situations are worsening. The SME Revitalization Support Councils established in each prefecture are a particularly useful source of advice in this regard. Staffed by experienced experts in corporate revitalization, they provide advice to SMEs whose businesses are deteriorating due to excessive debt but which are judged capable of turning themselves around by overhauling their finances and operations. When it is considered that the SMEs requesting advice need to radically overhaul their finances and operations in order to successfully revitalize, individual support teams consisting of professionals such as lawyers and certified public accountants are formed to assist with formulation of concrete revitalization plans and negotiation of debt waivers and rescheduling with financial adjustments. In fiscal 2010, 364 enterprises were helped by these councils to develop revitalization plans, making a total of 2,945 enterprises that have received such assistance since fiscal 2003. These councils thus provide one effective means of support for SMEs expected to be able to turn themselves around by, for example, reducing and deferring their debt when they engage in passive business changes to improve and revitalize their operations. Another form of support

created by the amendment of the Act on Special Measures for Regeneration of Industrial Vitality and Innovation of Industrial Activities in June 2009 is a system of approval of “SME rehabilitation plans through succession.” Under this system, SMEs first prepare such a plan to turn themselves around by splitting off their profitable operations (through a company split-off or business transfer) for takeover by another business (second company) so that the remnants of the old company can be dealt with by a process such as special liquidation. Once the plan has been approved, the second company that took over the business is allowed to inherit the original company’s permits and approvals,<sup>33)</sup> qualifies for reductions in registration and license tax and real estate acquisition tax, and can receive financial assistance.<sup>34)</sup>

In Section 1 of this chapter, we outlined the important effects that startups have on the economy and society due to their contributions to economic renewal, enterprise growth, job creation, and social diversification, and in Section 2 we showed how business changes stimulate economic renewal and enterprise growth. Given the large numbers of SMEs bankrupted and forced to close down by the Great East Japan Earthquake, promoting startups and changes of business is crucially important to stimulating economic renewal, enterprise growth, and job creation. Even after the earthquake, it is the entrepreneurship displayed by those entrepreneurs who boldly move into new markets and proprietors who shake up their existing operations and enter new fields who will be the driving force behind economic growth. In order to foster the development of the vanguard of this new age, the Government made “encouraging SMEs to start up new businesses” one of the fundamental principles of the Small and Medium Enterprise Charter adopted by the Cabinet in June 2010, and also incorporated “creating an environment for easier start-up and business advance into new fields” as one element of the action guidelines described in this charter. Now that the old economic order built around large enterprises is crumbling, it is the challenging spirit, motivation, and varied ingenuity of entrepreneurs and SMEs that will transform the existing order and create a richer, more dynamic economy and society.

33) Inheritance of permits and approvals by second companies is subject to certain restrictions on industry.

34) Receipt of financial assistance is subject to separate review by a financial institution providing financial assistance.

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## Chapter 2

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### Action by SMEs to develop their strengths

As Part I showed, the damage caused by the Great East Japan Earthquake has been varied and extremely wide reaching in scope. Enabling rapid recovery is therefore an absolute priority. Also important, though, is that steps be taken to make Japan's SMEs stronger from a medium to longer term perspective so as to ensure that they can achieve growth.

With this in mind, the purpose of this chapter is to analyze two forms of action that are required; both to further develop the strengths of SMEs that have managed to emerge and evolve through startups and changes of business, and also to contribute to Japan's economic growth. These are: action to raise labor productivity, and action to take advantage of business opportunities overseas.

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#### Section 1 Improvement of labor productivity

Population decline coupled with the falling birthrate and demographic aging is expected to cause the population aged 15 to 64 to shrink, while energy supply constraints have been further tightened by the effects of the earthquake. Given these circumstances, the SMEs at which some 70% of Japan's employees work will have to raise their labor productivity if the Japanese economy is to enjoy sustained growth.

In this section, we first analyze the effects on labor

productivity of the various types of action taken by SMEs, including (1) expansion of number of clients, (2) raising spending per customer, (3) hiring and development of human resources, (4) technological innovation, (5) adoption of IT (information technology), (6) automation, (7) energy conservation, and (8) business process reform. We then examine what effective steps can be taken by SMEs to raise their labor productivity and contribute to Japan's economic growth.

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##### [1] Current situation regarding labor productivity

###### ● Changes in size of Japanese population aged 15-64

Fig. 3-2-1 shows the changes in the size of the population aged 15-64. As is evident from this, the Japanese population aged 15-64 is projected to be 67.40 million in 2030, equivalent to approximately 83% of its level of 81.49 million in 2009.

The impact of population decline, the falling birthrate, and demographic aging is thus expected to reduce the size of Japan's population aged 15-64 and also reduce this age group's share of the total population. In order for the Japanese economy to continue to grow, labor productivity must be raised to offset the decline in the population aged 15-64 and enable further economic growth.

On this point, the "New Growth Strategy Blueprint for Revitalizing Japan" adopted by the Cabinet on June 18, 2010, notes that, even if employment of women

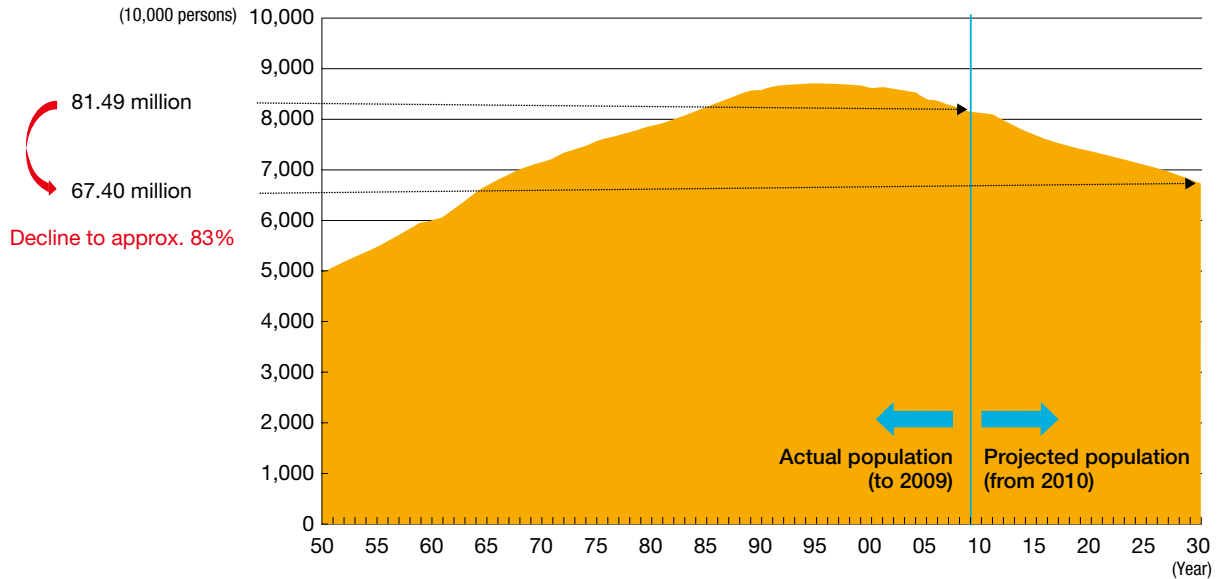
and older people is promoted to the full, the number of persons employed in fiscal 2020 will fall below what it is now, making it necessary to increase labor productivity by an even greater amount if economic growth is to be achieved.

###### ● Need to raise SMEs' labor productivity

Fig. 3-2-2 shows the labor productivity and number of workers of SMEs and large enterprises broken down by industry. This demonstrates that in all industries except eating and drinking places and accommodations, large enterprises' labor productivity considerably exceeds that of SMEs. However, around 70% of all workers work at these SMEs which have low labor productivity. Assuming that this proportion remains unchanged in the future, it will therefore be necessary to raise labor productivity at SMEs as well as at large enterprises in order to raise Japan's overall labor productivity.

**Fig. 3-2-1 Japanese population aged 15-64**

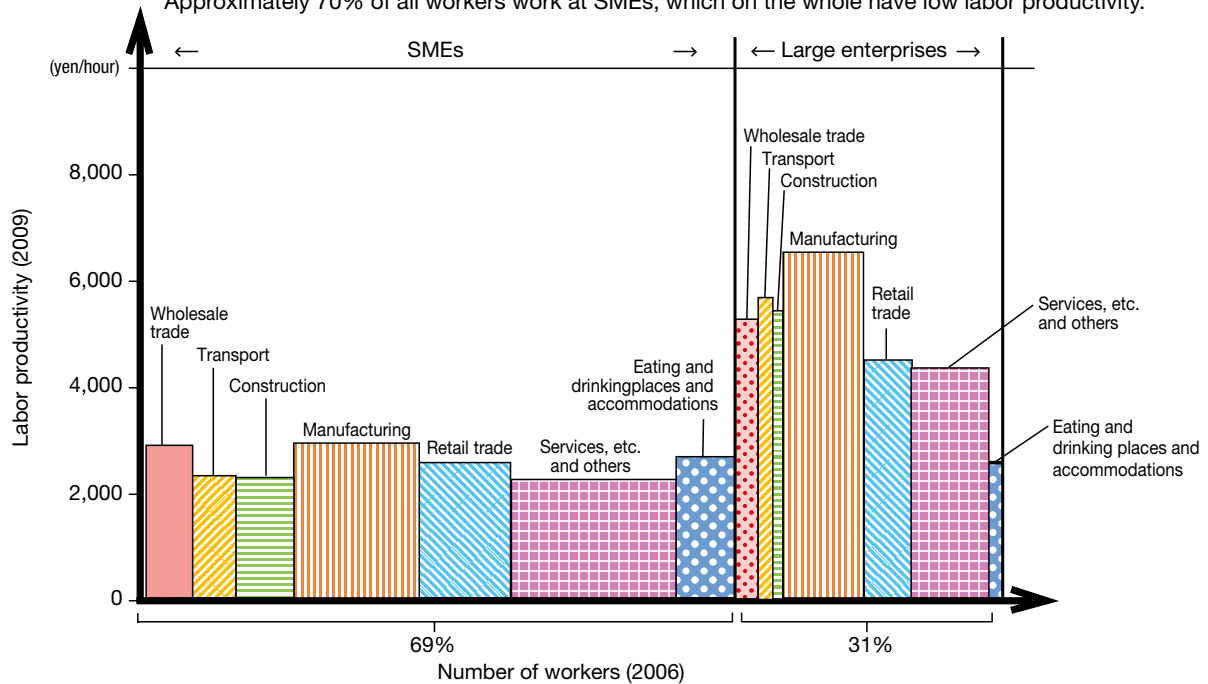
In 2030, the Japanese population aged 15-64 will have declined to around 83% of its level in 2009.



Source: Population as of October 1 of each year according to National Institute of Population and Social Security Research, *Population Projections for Japan* (estimated December 2006) (“intermediate fertility (intermediate mortality)”).

**Fig. 3-2-2 Number of workers and labor productivity by industry and size**

Approximately 70% of all workers work at SMEs, which on the whole have low labor productivity.



Sources: Recompiled from MIC, *2006 Establishment and Enterprise Census of Japan*; MOF, *2009 Financial Statements Statistics of Corporations by Industry, Annually*; MHLW, *2010 Monthly Labour Survey*.

- Notes:
1. The horizontal axis shows the number of workers by industry and size.
  2. The vertical axis represents labor productivity.
  3. Labor productivity = gross value added / (number of workers × total number of hours worked)
  4. Gross value added = operating profit + directors' salaries + directors' bonuses + employees' salaries + employees' bonuses + rent on movables and real estate + depreciation costs + special depreciation costs
  5. Number of workers = number of directors + number of employees
  6. Due to statistical limitations, figures on “other services” according to *Financial Statements Statistics of Corporations by Industry, Annually* are used to calculate the labor productivity of “services, etc. and others.”

To summarize the above results, it is projected that, even if employment of women and older people is promoted to the maximum extent possible, the number of employees will decline in the near future owing to the decline of the population aged 15-64 resulting from population decline,

the falling birthrate, and demographic aging. In order to offset this decline and make possible economic growth, therefore, it is necessary to raise the labor productivity of SMEs, which account for around 70% of all employees but which generally have low labor productivity rates.



[2] Action by SMEs to raise labor productivity

● Attitudes toward types of action to raise labor productivity

So far, we have demonstrated the need to raise SMEs' labor productivity in order for the Japanese economy to achieve continuing growth.

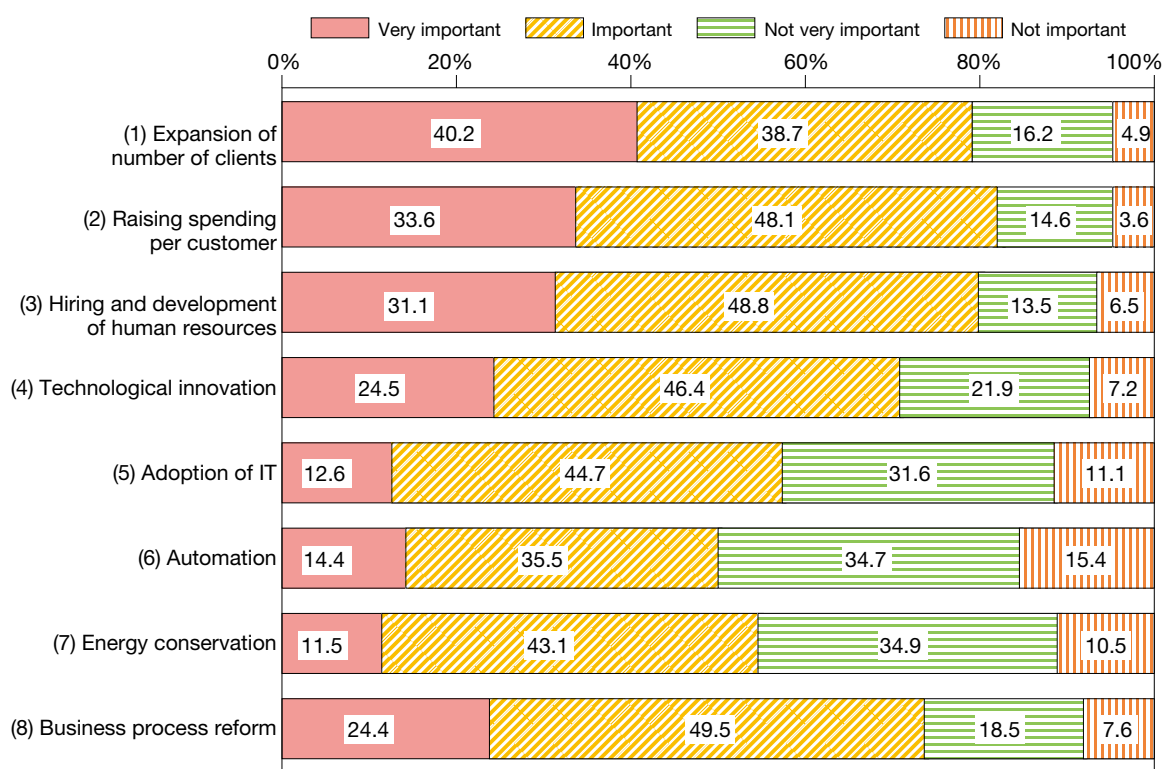
What then are the effects on labor productivity of the various types of action taken by SMEs?

The analysis that follows is based mainly on the results of the *Survey on Labor Productivity*.<sup>1)</sup>

Fig. 3-2-3 shows SMEs' perceptions of the importance of the impact on raising labor productivity of the various types of action that they take. From this it can be seen that approximately 80% regard "expansion of number of clients," "raising spending per customer," and "hiring and development of human resources" as either "very important" or "important." Furthermore, while around 70% point to the importance of "technological innovation" and "business process reform," less than 60% cite "automation," "energy conservation," and "adoption of IT."

**Fig. 3-2-3 Importance of types of action to raise labor productivity**

Approximately 80% regard expansion of number of clients, raising spending per customer, and hiring and developing of human resources as important.



Source: Nomura Research Institute, Ltd. (NRI), *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

Below, we examine the state of implementation of each type of action to raise labor productivity and their effects on the enterprises that implemented them.

● (1) Expansion of number of clients and (2) raising spending per customer

Fig. 3-2-4 shows the state of action by enterprises to expand their number of clients and the effects on enterprises that took such action. The commonest form of action, taken by approximately 70% of the enterprises, was "maintenance of stable quality of goods and services." This was followed by "development and provision of new goods and services" on approximately 60%. "Export overseas," on the other hand, is engaged in by around

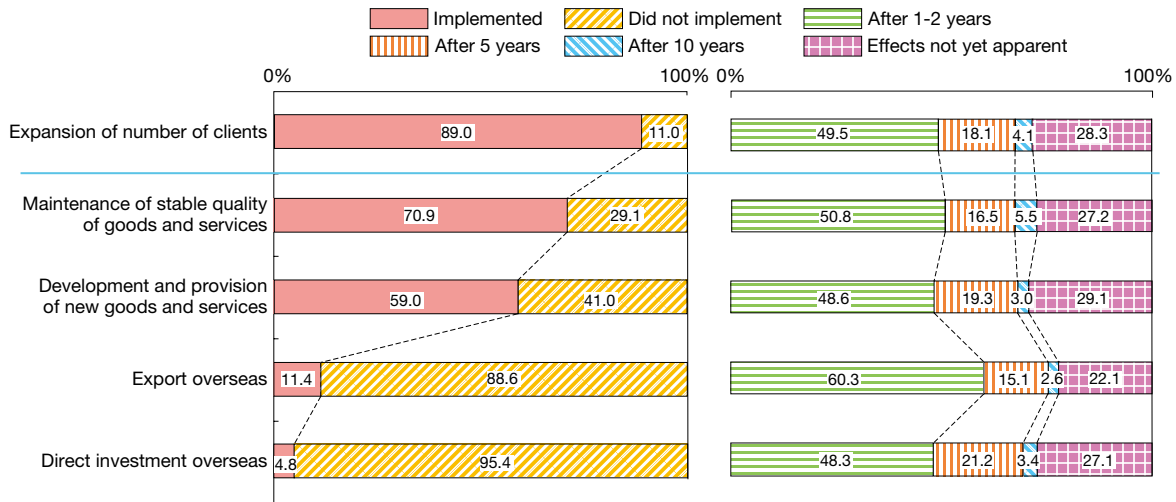
10% of enterprises, and fewer than 10% pursue "capital investment overseas."

The highest proportion of enterprises reporting that the effects of action became apparent after one or two years is found among those that pursued "export overseas" (approximately 60%), while "capital investment overseas" garnered the lowest proportion (just under 50%). In every category of action, around one in five enterprises felt that it took at least five years for the effects of action to become apparent. Also in every category, 20% to 30% of enterprises felt that the effects had yet to become apparent, suggesting that it tends to take some time for the effects of action to be felt.

1) Commissioned by the SME Agency and conducted by MRI in November 2010. It consisted of a questionnaire survey of 20,000 SMEs and 2,973 support providers. The response rates were respectively 24.3% and 52.2%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

**Fig. 3-2-4 State of action on (1) expansion of number of clients, and effects on enterprises that took such action**

A high proportion (approximately 70%) pursue “maintenance of stable quality of goods and services,” and fewer than 10% engage in “capital investment overseas.” In all categories, around 20% report that it takes at least five years for the effects to be felt.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

- Notes:
1. Only the enterprises that took the type of action concerned responded regarding their effects.
  2. Proportions of implementation of all types of action are calculated based on the number of enterprises that said that they implemented even just one individual action.
  3. Figures on the effects on enterprises implementing all types of action were calculated by weighting the proportion that took each individual action according to the number of respondent enterprises.

**Case 3-2-1**

**A company where the number of customers keeps growing from high-quality service in online sales**

Sawai Coffee Co., Ltd. of Sakaiminato City, Tottori Prefecture is engaged in coffee wholesaling and the operation of coffee shops with 83 employees and capital of ¥10 million. Sawai Coffee began selling coffee via the Internet 10 years ago. The company's sales have nearly doubled over the past five years, and now online sales account for about 60% of total sales.

Sawai Coffee has succeeded among the large number of online stores because of their superb customer service. Director Yumiko Sawai explains, “We take the same great care of all our customers both online and at our stores. Since we cannot see our online customers, we make a special effort to give them even more lavish service.” The company originally sent out a handwritten post card with each order. They now send a follow-up e-mail after every delivery to confirm that the customer was happy with the product and service.

Sawai Coffee built a plant in Sakaiminato City five years ago, and arranged a system to ship a thousand orders per day. Yet on some days they now receive more orders than they can process. Director Sawai says, “If we can expand capacity, we would like to develop mail-order sales and television shopping.”



Sawai Coffee's homepage

Regarding action to raise spending per customer, over 50% of the respondents pursued “enhancement of ability to put proposals to customers” and “development and provision of highly differentiated goods and services,” while fewer than 20% engaged in “targeting of specific markets (regions, age groups, etc.)”

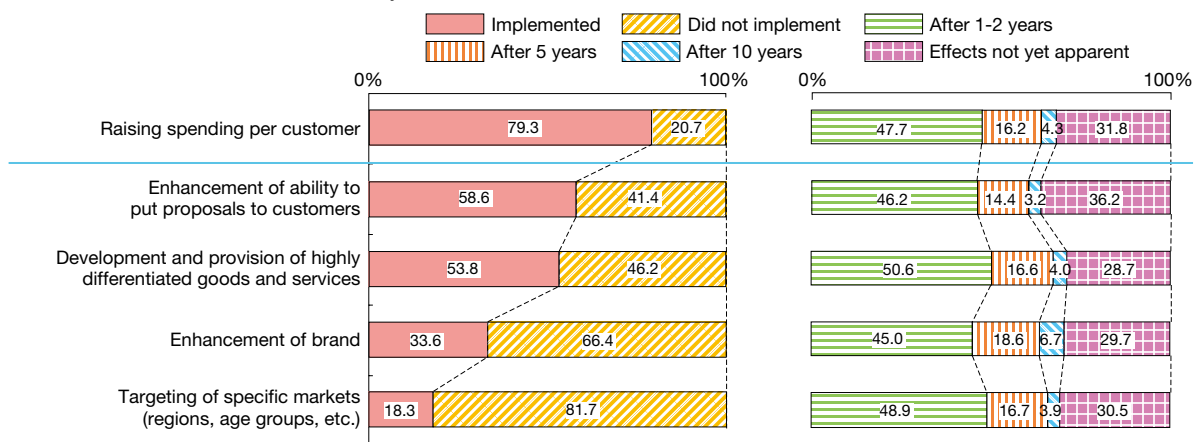
In all categories of action, the effects of action were felt after one to two years by around 50%, in at least five years by around 20%, and not yet by around 30%. Like action to

expand number of clients, it thus tends to take some time for the effects to become apparent (Fig. 3-2-5).

It may be concluded from the above that, regardless of the proportion of enterprises taking such action, action to expand markets, such as by expanding the number of clients or raising spending per customer, takes time for their effects to be felt and need to be pursued over the longer term.

**Fig. 3-2-5 State of action on (2) raising spending per customer, and effects on enterprises that took such action**

Over 50% pursued “enhancement of ability to put proposals to customers” and “development and provision of highly differentiated goods and services.” Overall, around 50% of enterprises that took the actions shown said that it took one to two years for the effects to become apparent, and around 20% said that it took at least five years.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

- Notes:
1. Only the enterprises that took the type of action concerned responded regarding their effects.
  2. Proportions of implementation of all types of action are calculated based on the number of enterprises that said that they implemented even just one individual action.
  3. Figures on the effects on enterprises implementing all types of action were calculated by weighting the proportion that took each individual action according to the number of respondent enterprises.

### Case 3-2-2

## A company that boosted spending per customer with stylish interior and product design that enhanced brand power

Kasho Rokube Co., Ltd. is a long-standing Japanese confectionery company in Nagahama City, Shiga Prefecture with 31 employees and capital of ¥10 million. It was originally established as Igawa Confectionary in 1926.

President Nobuhiko Igawa, who is the fourth-generation proprietor, says “We want to establish our own brand and make confectionary that can sell even if it is high-priced.” To those ends, the company hired a famous interior designer to remodel their shop into a novel and fashionable space. Along with this remodeling, the company also worked with the interior designer on product development to create more attractive designs for their Japanese sweets. One of their successes is a *monaka* (a Japanese sweet made of *azuki* bean filling sandwiched between two thin crisp wafers) called “Kuu” which is a big hit and is also sold via department stores.

This design approach has attracted attention. The company has gained name recognition, and is receiving increasing requests to open sales counters at department stores nationwide. President Igawa says, “When I meet with department store buyers, I am sometimes suddenly asked about new product ideas. I am always on the lookout so I can propose attractive ideas that will draw customers.” He is constantly collecting information for product development.

Kasho Rokube’s sense of design and novelty is being very well received by customers. While their products are comparatively expensive, the company has achieved rapid expansion with sales growing by 1.5 times each year since President Igawa took office. Kasho Rokube opened a new outlet inside Tokyo Station in March 2010. The company is expected to continue growing.



The designers’ *monaka* “Kuu”

● (3) Hiring and development of human resources and (4) technological innovation

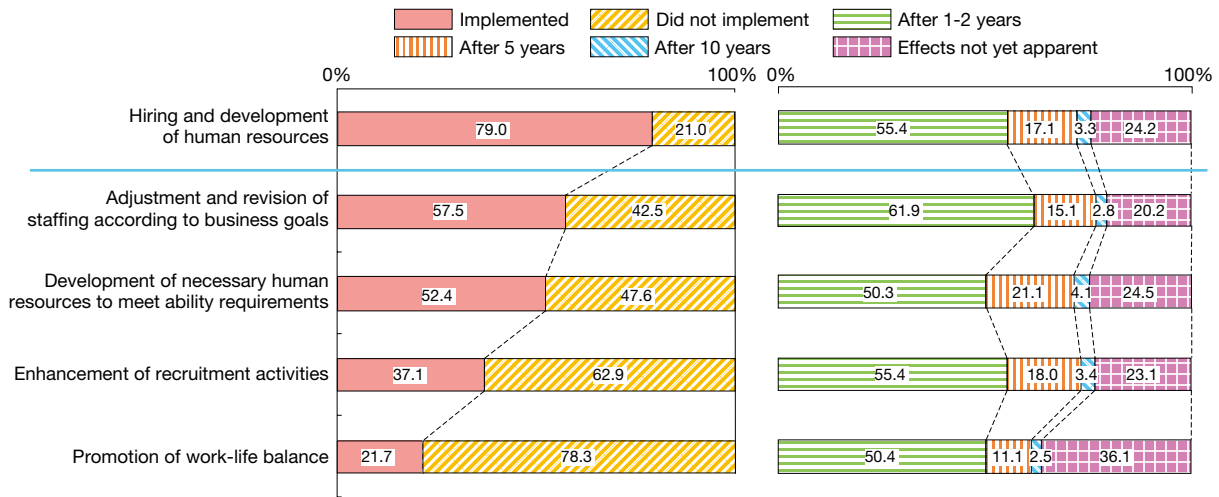
Fig. 3-2-6 shows the state of action to hire and develop human resources, and the effects on enterprises that took such action. While at least 50% of enterprises are pursuing “adjustment and revision of staffing according to business goals” and “development of necessary human resources to meet ability requirements,” only around 20% engage in “promotion of work-life balance.”

Regarding the time taken for the effects to become

apparent, in all categories 50% to 60% said it took one to two years. However, approximately 25% said that it took at least five years for the effects of “development of necessary human resources to meet ability requirements” to be felt, indicating that this type of action takes time to be effective. Also in all categories, over 20% of enterprises said that the effects of action had yet to become apparent. At just under 40%, the proportion was particularly high in the case of “promotion of work-life balance,” indicating that the effects of this type of action are hard to detect.

**Fig. 3-2-6 State of action on (3) hiring and development of human resources, and effects on enterprises that took such action**

Over 50% engage in “adjustment and revision of staffing according to business goals” and “development of necessary human resources to meet ability requirements.” Overall, 50% to 60% of enterprises taking action report that it takes one to two years for the effects to become apparent, while around 25% say it takes at least five years for “development of necessary human resources to meet ability requirements” to manifest effects.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

- Notes:
1. Only the enterprises that took the type of action concerned responded regarding their effects.
  2. Proportions of implementation of all types of action are calculated based on the number of enterprises that said that they implemented even just one individual action.
  3. Figures on the effects on enterprises implementing all types of action were calculated by weighting the proportion that took each individual action according to the number of respondent enterprises.

### Case 3-2-3

## A company that welcomes operations improvement proposals from employees, boosts employee satisfaction, and develops human resources

Ichiran Co., Ltd. is a *tonkotsu* (pork bone broth) ramen noodle shop chain with outlets nationwide based in Fukuoka City, Fukuoka Prefecture with 110 employees and capital of ¥40 million.

Ichiran places great emphasis on human resources development and employee satisfaction, with the philosophy that “the company is its people, and the employees are the corporate brand.” Their management philosophy says, “to provide better products and services, it is first important to boost the satisfaction and motivation of the employees who provide service,” and “if employees feel needed by the company, that will certainly lead to improved customer service.”

To those ends, Ichiran makes a point of “praising,” “recognizing” and “thanking” throughout the company on a day-to-day basis. The company has installed boxes for suggestions to management to advance bottom-up operations reform using the comments of front-line workers, and opened an internal web site where employees can exchange ideas.

Ichiran makes similar efforts to boost the satisfaction of their ramen shop staff. They have arranged a framework for shop employees to provide feedback to management. At monthly meetings, shop managers bring employee proposals for improving operations. One proposal which was adopted is the employee “licensing system” introduced at Ichiran shops. This system establishes six categories of licenses including cooking and customer service. Employees must pass tests every six months to retain their licenses. While securing service quality through ongoing skill evaluations, the licensing is also reflected in staff compensation as a license allowance.

Ichiran Managing Director Kazuya Nakamura says, “We will now invest in securing and training human resources to avoid personnel shortages when opening new outlets.”



Employee awards ceremony

Regarding technological innovation, over 50% of enterprises engage in “improvement of existing products,” compared with less than 30% that undertake “R&D.”

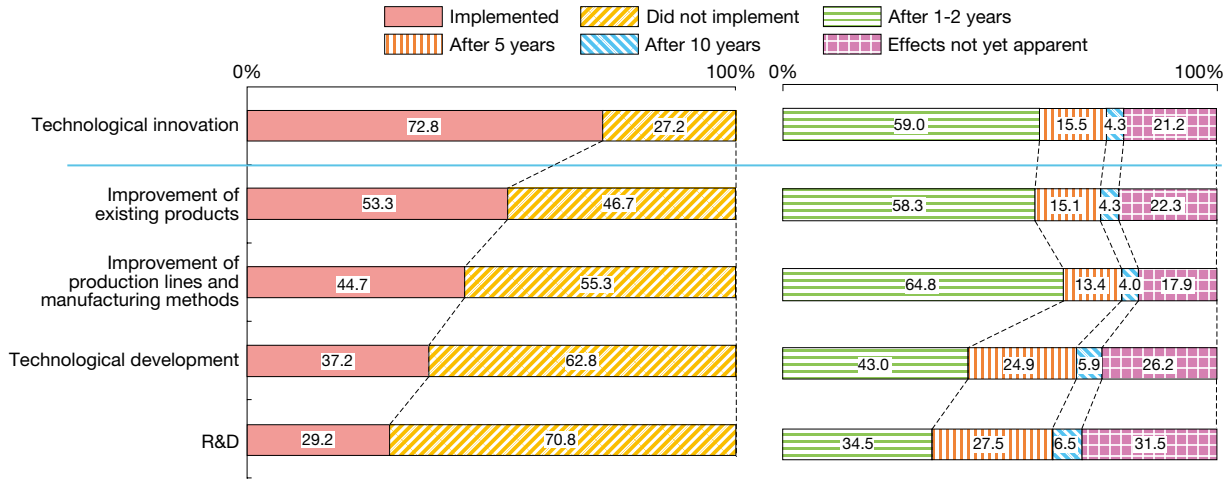
As for the time taken for the effects to be felt, “improvement of existing products” and “improvement of production lines and manufacturing methods” were felt to be effective after one to two years by the highest proportion (around 60%), indicating that benefits are reaped relatively quickly in these areas. “R&D” and “technological development,” on the other hand, were felt to take at least five years to take effect according to 30% of the respondents, indicating that the benefits of action

in these areas take some time to become apparent. The proportion of respondents who felt that their initiatives had yet to produce any effect was highest for “R&D” at over 30%, which suggests that reaping benefits in this area is not easy (Fig. 3-2-7).

To summarize the above, the effects of hiring and development of human resources and technological innovation, which are recognized as important by many SMEs, on the whole tend to take some time to be felt, and action in such areas needs to be undertaken over the long term.

**Fig. 3-2-7 State of action on (4) technological innovation, and effects on enterprises that took such action**

Over 50% engaged in “improvement of existing products,” compared with less than 30% that undertook “R&D.” Over 30% said that the benefits of “technological development” and “R&D” took at least five years to be felt.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

- Notes:
1. Only the enterprises that took the type of action concerned responded regarding their effects.
  2. Proportions of implementation of all types of action are calculated based on the number of enterprises that said that they implemented even just one individual action.
  3. Figures on the effects on enterprises implementing all types of action were calculated by weighting the proportion that took each individual action according to the number of respondent enterprises.

**Case 3-2-4**

**A company that developed and commercialized a highly cost-effective printer that requires neither paper nor ink**

Sanwa Newtec Co., Ltd. develops and manufactures printers and memory card reader/writers in Miyazaki City, Miyazaki Prefecture with 130 employees and capital of ¥65 million.

Using the heat printing and erasing technology that the company developed over many years in the memory card reader/writer business, Sanwa Newtec has successfully developed and commercialized rewritable printers that require neither paper nor ink. The rewritable printers use special sheets that can be printed and erased time after time.

These printers have been drawing attention as environmental goods, and are being used by Kagoshima Broadcasting Corporation and the government of Miyazaki Prefecture. Sanwa Newtec had a sharp increase in inquiries from abroad since a foreign media outlet posted a video clip of the rewritable printers on an overseas video-sharing website.

The company has also developed a rewritable printer that can also write onto RFID tags<sup>2)</sup> which it is supplying to major manufacturers. Sanwa Newtec now plans to design printers for new applications.



Rewritable printer

2) RFID (radio-frequency identification) tags are wireless IC chips used to identify items.

## Case 3-2-5

### A company that aggressively invests in technology development and is always developing new technologies

Fujico Co., Ltd. is engaged in facilities maintenance and the manufacturing and sales of composites and other products using welding, flame spray coating<sup>3)</sup> and other advanced technologies in Kitakyushu City, Fukuoka Prefecture with 630 employees and capital of ¥100 million. Each year, Fujico invests about ¥300-¥400 million out of its annual sales of ¥10.0 billion in technology development. At the company's Technology Development Center, 32 Fujico employees work on research and development by field, centered on basic development.

Fujico has been developing flame spray coating technology since 2001. Through its own research, the company developed a device that is over twice as fast as conventional equipment, and can use a finer, nano-level powder. Since the particles are sprayed at three times the speed of sound, the process achieves high bond strength and complete coverage.

Recently, photocatalyst technology from industry-academia joint development with Kyushu Institute of Technology was combined with Fujico's sophisticated flame spray technology to commercialize a photocatalyst tile with a strong deodorizing effect. Previous photocatalysts had a weak effect without exposure to light as strong as sunlight. Fujico's new photocatalyst tiles are effective under light as weak as fluorescent lighting. The tiles were introduced at train station toilets, removing unpleasant odors and drawing media coverage. They have been well received by users, and are being used at a growing number of facilities, even though they are relatively high-priced.

Mr. Hideaki Nagayoshi, Director of Fujico Technology Development Center, is enthusiastic and says, "Small and medium manufacturers like us must develop new products every day or we will not survive. We now want to move forward and introduce photocatalyst tiles for private homes."



Fujico's photocatalyst tiles prevent and remove odors.

#### ● (5) Adoption of IT, (6) automation, and (7) energy conservation

Fig. 3-2-8 shows the state of action to adopt IT and the effects felt by enterprises that took such action. Almost 90% of enterprises have engaged in "introduction of PCs" and over 70% in "connection to networks." On the other hand, "use of e-commerce" is pursued by a little over 20%, while "use of cloud computing"<sup>4)</sup> is cited by less than 10%.

Regarding the time taken for enterprises to feel the effects of such action, over 70% said the effects took over

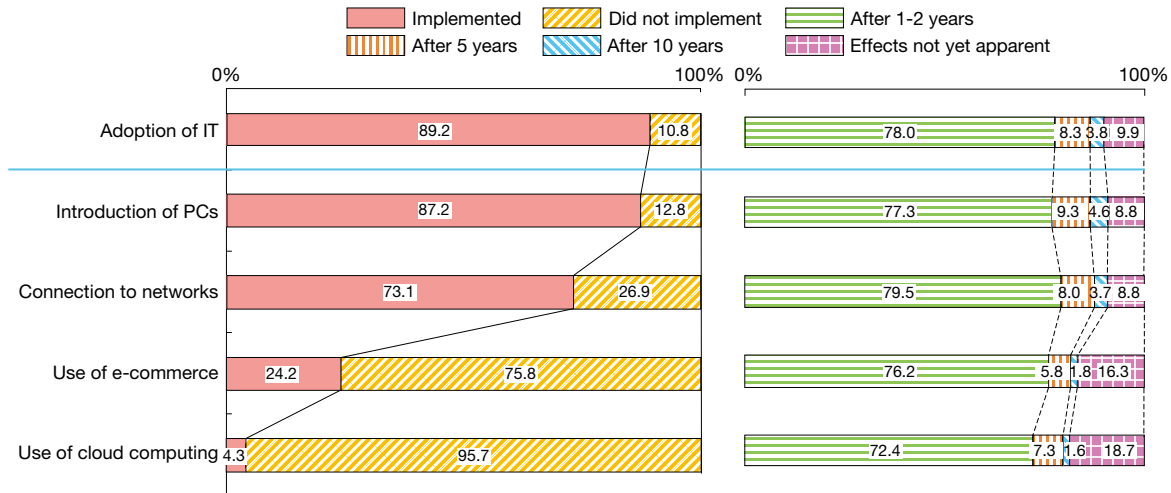
one to two years to be felt for all types, around 10% said that they took at least five years to be felt, and 10%-20% said the effects were yet to be felt. These figures suggest that, overall, these types of action are fast acting.

As greater "use of cloud computing" and "use of e-commerce," which many SMEs have yet to engage in, has the potential to produce perceptible improvements in labor productivity within a short space of time, it is hoped that conditions will be developed to encourage their use.<sup>5)</sup>

- 3) Flame spray coating is one surface processing method which sprays and coats the surfaces of objects by heating particles to a fluid or near-fluid state and spraying them onto the surface.
- 4) Cloud computing is a means of data processing through the provision or use of data processing services delivered as needed via networks. One specific cloud computing sales model is "SaaS" (software as a service), which generates revenues from monthly charges for application software functionality, which is provided as a service to clients who need it via networks such as the Internet.
- 5) Under METT's "Industrial Structure Vision 2010" (Industrial Competitiveness Committee, Industrial Structure Council, June 2010) and "New Strategies for Innovation of Information and Economy" (Information Economy Committee, Industrial Structure Council, May 2010), support is to be provided to help SMEs develop collaborative relations with cloud computing service providers, support providers, and others. It is also hoped that use of cloud computing will make possible profit and revenue growth and facilitate financing by strengthening business management and marketing, as well as by consolidating and integrating control of the information spread throughout enterprises and increasing business efficiency.

**Fig. 3-2-8 State of action on (5) adoption of IT, and effects on enterprises that took such action**

While almost 90% of enterprises have engaged in “introduction of PCs” and over 70% in “connection to networks,” less than 10% make “use of cloud computing.” Over 70% in all categories say the effects of action are felt after one to two years.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

- Notes:
1. Only the enterprises that took the type of action concerned responded regarding their effects.
  2. Proportions of implementation of all types of action are calculated based on the number of enterprises that said that they implemented even just one individual action.
  3. Figures on the effects on enterprises implementing all types of action were calculated by weighting the proportion that took each individual action according to the number of respondent enterprises.

**Case 3-2-6**

**A company that uses IT to provide same-day maid services**

Happy Bears Co., Ltd. is a maid service company in Chuo City, Tokyo with 82 employees and ¥89 million in capital which was founded in 1999. As Happy Bears thought it necessary to accurately grasp the status of its “Bears ladies” to provide high-quality services that meet customer needs, the company internalized its system development team and compiled a database so the company always knows the address, abilities and desired working hours of each of the Bears ladies.

It previously took the company two weeks to provide services when customers called, in order to locate suitable staff. With the new system, Happy Bears can now dispatch staff the same day. The “Bears Express” service is the first in the industry to provide same-day service, as long as orders are placed by 2 p.m.

This use of information technology has not only improved works efficiency, but also greatly increased the number of customers. The company’s annual sales, which were around ¥200 million five years ago, now exceed ¥900 million and continue growing.

Happy Bears Managing Director Yuki Takahashi explains, “The maid service business is not yet widely recognized in Japan. We want to continue growing along with changes in the Japanese living environment by accurately grasping evolving customer values and needs. We also want to positively cooperate with other like-minded companies, boost business and build up the industry.”



The Bears Express call center

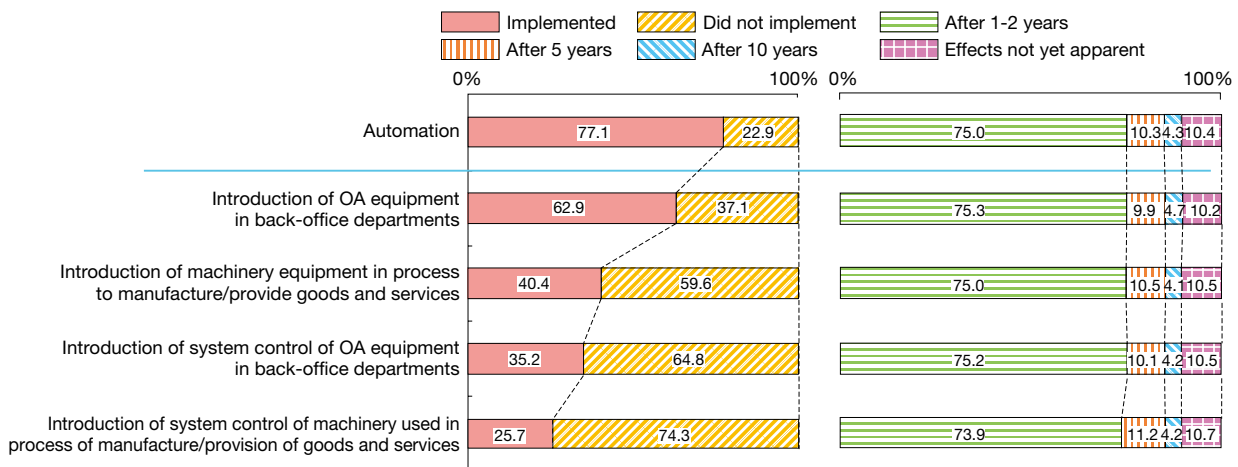


Regarding the state of action on automation, a little over 60% of enterprises engage in “introduction of OA equipment in back-office departments,” while less than 30% pursue “introduction of system control of machinery used in process of production/provision of goods and services.”

Over 70% of enterprises in all categories reported that the effects of action are felt after one to two years, while 10% to 20% say that it takes at least five years or the effects have yet to become apparent. This indicates that the effects of action of this kind are easily and rapidly obtainable (Fig. 3-2-9).

**Fig. 3-2-9 State of action on (6) automation, and effects on enterprises that took such action**

The commonest type of action, engaged in by a little over 60% of enterprises, is “introduction of OA equipment in back-office departments,” while the least common, pursued by under 30%, is “introduction of system control of machinery used in process of production/provision of goods and services.” A large proportion (over 70%) of enterprises in all categories say the effects of action are felt after one to two years.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

- Notes:
1. Only the enterprises that took the type of action concerned responded regarding their effects.
  2. Proportions of implementation of all types of action are calculated based on the number of enterprises that said that they implemented even just one individual action.
  3. Figures on the effects on enterprises implementing all types of action were calculated by weighting the proportion that took each individual action according to the number of respondent enterprises.

### Case 3-2-7

## A company that automated so employees can manufacture high-quality products after just three months on the job

Works Co., Ltd. manufactures die cast parts for lenses, hybrid automobiles, electric vehicles and precision motors in the Onga district of Fukuoka Prefecture with 44 employees and capital of ¥15 million. The company’s strength lies in its high precision processing. Works produces dies that can be used to make 16 lenses at once with an accuracy of 0.3 micrometers in all directions perpendicular, parallel and circular.

It is difficult to learn how to manufacture such precision dies without years of experience, but the average age of Works’ employees is very young—around 30—and many of the company’s workers are not even full-time employees. Nevertheless, Works can steadily provide high-quality products. This is possible because the company has converted the precision machining and artisan skills accumulated over many years of experience into the technology of numerical control devices, with about 50 NC<sup>6)</sup> machine tools following a standardized works procedure. This equipment makes it possible for employees with little experience to carry-out sophisticated processing.

Works prepared a manual for the operation of NC machine tools, updated it each time employees found points for improvement, and made it possible for not only experienced artisans but also new employees who have only been working for three months to produce high-quality products. The introduction of NC machine tools also contributes to faster delivery and lower expenses.

Works President Keiji Mieno says, “Thanks to our effective automation and framework for the sharing of know-how, young workers who are eager can now quickly grow, become skilled at using the equipment, and efficiently manufacture high-quality products.”



Young employee skillfully using an NC machine tool

6) NC is an abbreviation for Numerical Control, whereby machine tool operations are controlled by computer rather than manually.

Next, we look at the state of action to conserve energy and the effects on enterprises that took such action. While at least 50% of enterprises engaged in “energy conservation through practice,” the proportion that pursued “energy conservation through investment” was only a little over 20%.<sup>7)</sup>

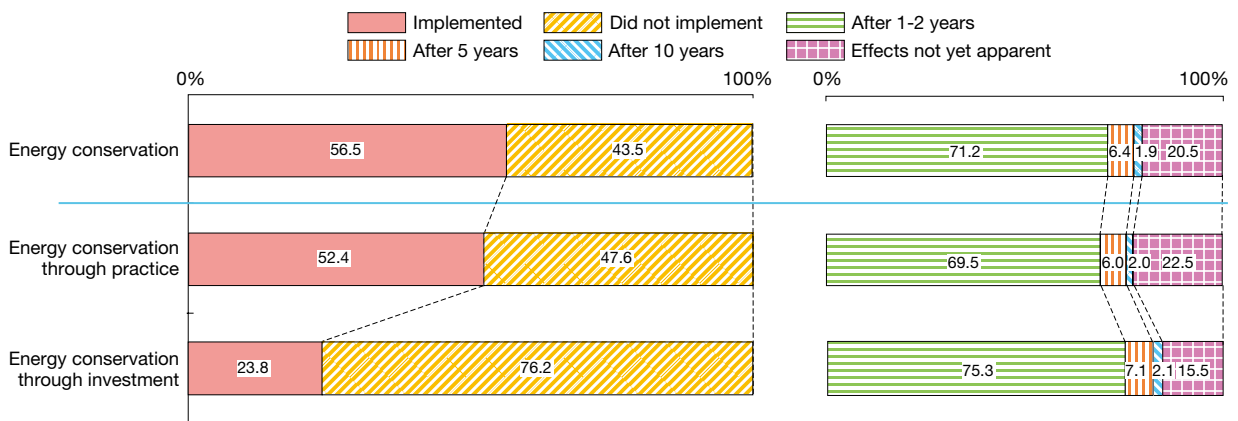
The effects were felt after one or two years by around 70%, with fewer than 10% reporting that they took at

least five years to become apparent (Fig. 3-2-10). It can be seen from these results that, like the adoption of IT and automation, the effects of energy conservation are soon felt.

From the above, we may conclude that action on adopting IT, automation, and energy conservation on the whole takes little time to implement and the effects are soon apparent.

**Fig. 3-2-10 State of action on (7) energy conservation, and effects on enterprises that took such action**

While over 50% of enterprises engage in “energy conservation through practice,” only just over 20% pursue “energy conservation through investment.” In all categories, high proportions report that the effects of action become apparent after one to two years.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

- Notes:
1. Only the enterprises that took the type of action concerned responded regarding their effects.
  2. Proportions of implementation of all types of action are calculated based on the number of enterprises that said that they implemented even just one individual action.
  3. Figures on the effects on enterprises implementing all types of action were calculated by weighting the proportion that took each individual action according to the number of respondent enterprises.

**Case 3-2-8**

**A company that introduced a wood boiler, conserved energy and cut expenses**

Ninomiya Mokuzai K.K. is engaged in lumber production and consigned housing construction in Nasushiobara City, Tochigi Prefecture with 40 employees and capital of ¥10 million.

Ninomiya Mokuzai requires a boiler to dry moist wood during lumber production, and the company had high fuel expenses on the order of ¥3 million per month because they were using a fuel oil boiler. So Ninomiya Mokuzai decided to introduce a wood boiler which would burn timber from forest thinning, sawdust, chips and other wood waste to reduce the fuel expenses.

Carbon dioxide is emitted from wood boilers, but that is offset by the carbon dioxide absorbed by trees grown, and wood boilers are given credit for reducing carbon dioxide emissions. In cooperation with Tokyo Electric Power Company, Ninomiya Mokuzai is applying for certification under a domestic carbon credit system, and expects an annual carbon dioxide reduction effect of about 2,500 tons. The investment for installing the wood boiler was about ¥100 million, but with a roughly ¥50 million yen subsidy from the Ministry of the Environment and the resulting reduction in fuel costs, Ninomiya Mokuzai expects to recover the initial investment in just about one year.

President Hidetoshi Ninomiya says the boiler has had a huge effect. “The fuel expenses—which were ¥3 million a month when we had the fuel oil boiler—have dropped to almost nothing.”



Ninomiya Mokuzai’s wood boiler.

7) The analysis of reasons for not proceeding with energy conservation through investment described on pp. 117-119 of the 2010 *White Paper on Small and Medium Enterprises in Japan* reveals the principal reason to be financial constraints.

Recognition of the importance of measures to conserve energy and save electricity on a routine basis has been further reinforced by the power supply constraints caused by the earthquake. Due to fears that increased electricity demand during the summer could put pressure on the power supply network, SMEs need to direct even greater efforts into saving electricity and conserving energy, and various power-saving measures are being implemented.<sup>8)</sup>

● (8) Business process reform

Fig. 3-2-11 shows the state of action on business process reform and the effects on enterprises that took such action. According to this, while over 50% of enterprises

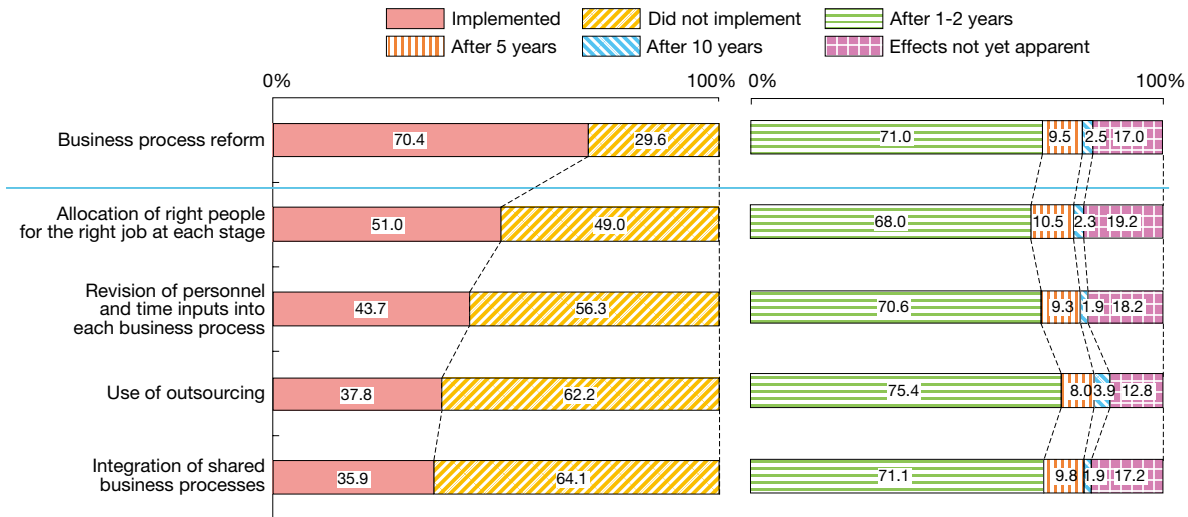
engage in “allocation of right people for the right job at each stage,” fewer than 40% make “use of outsourcing” or pursue “integration of shared business processes.”

The effects of action in all categories are reported to be felt after one to two years by around 70% of enterprises, and around one on ten say that they take at least five years to be effective.

These results show that business process reform is fast acting in effect, and it is hoped that more positive action will be taken in the future to increase the currently low proportion of enterprises engaging in “use of outsourcing” and “integration of shared business processes.”

**Fig. 3-2-11 State of action on (8) business process reform, and effects on enterprises that took such action**

While over 50% of enterprises engage in “allocation of right people for the right job at each stage,” fewer than 40% make “use of outsourcing” or pursue “integration of shared business processes.” Overall, a high proportion of enterprises of around 70% report that the effects of action are felt after one to two years.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

- Notes:
1. Only the enterprises that took the type of action concerned responded regarding their effects.
  2. Proportions of implementation of all types of action are calculated based on the number of enterprises that said that they implemented even just one individual action.
  3. Figures on the effects on enterprises implementing all types of action were calculated by weighting the proportion that took each individual action according to the number of respondent enterprises.

8) See Column 1-2-5.

### Case 3-2-9

## A company that improved works processes by applying manufacturing industry know-how to the service industry

Brilliant Associates operates restaurants and hotel beauty salons in Tottori City, Tottori Prefecture with six employees and capital of ¥3 million. The company was established in 2004.

Brilliant Associates opened a restaurant in the “Karoichi Market” near Tottori Port in April 2006 where sales have doubled over five years. The secret to this increase lies in more efficient works processes.

President Tomiko Fukushima applied the approach of flow planning and lead time from her former job, for a flow design that minimizes the distance staff travel from the dining hall to the kitchen. She located the kitchen pass-through<sup>9)</sup> for quick serving, and otherwise rearranged the kitchen for better efficiency. She then incorporated employee opinions and made further improvements for a more efficient kitchen through trial and error.

As a result, the company has developed a restaurant that can seat 130 people ten times per day, meeting their target of 20% year-on-year sales growth almost every month.

President Fukushima is aiming at further boosting efficiency. “An agricultural cooperative which sells farm produce and other goods will be entering the Karoichi Market, and I think that will change the flow of customers. I would like to build an additional entrance, change the seating arrangement and make other changes flexibly, as needed.”



A kitchen layout designed to minimize motion for efficient work

So far, we have examined perceptions of the importance of action to raise labor productivity, and the state of action and effects felt by enterprises engaging in various types of action to achieve this end.<sup>10)</sup> In the process, we have found that “expansion of number of clients,” “raising spending per customer,” “hiring and development of human resources,” and “technological innovation,” which are recognized by many SMEs as being more important than “adoption of IT,” “automation,” “energy conservation,” and “business process reform,” on the whole take longer for their effects to be felt and require long-term action.

“Adoption of IT,” “automation,” “energy conservation,”

and “business process reform,” on the other hand, although not regarded as important by as many SMEs as “expansion of number of clients,” “hiring and development of human resources,” and “technological innovation,” are on the whole felt to produce quick results.

To summarize our findings, although it is relatively simple for SMEs to take demonstratively effective and fast-acting steps to raise their labor productivity, types of action whose effects take time to be felt and that are not necessarily certain to produce results are regarded as more important, due partly to the fact that they are not easy to implement.

9) The kitchen pass-through is the window to the kitchen and pantry. All dishes prepared in the kitchen are placed on the pass-through counter for serving.

10) For a breakdown into manufacturing and non-manufacturing of the state of action and effects experienced by enterprises taking such action, see Appended Note 3-2-1.

**[3] Problems encountered by and support available to SMEs when raising labor productivity**

Above, we looked at SMEs’ perceptions of the importance of various types of action to raise labor productivity, their state of implementation of each type of action, and the effects experienced by enterprises taking such action.

This leads us to our next question: How can SMEs further raise their labor productivity?

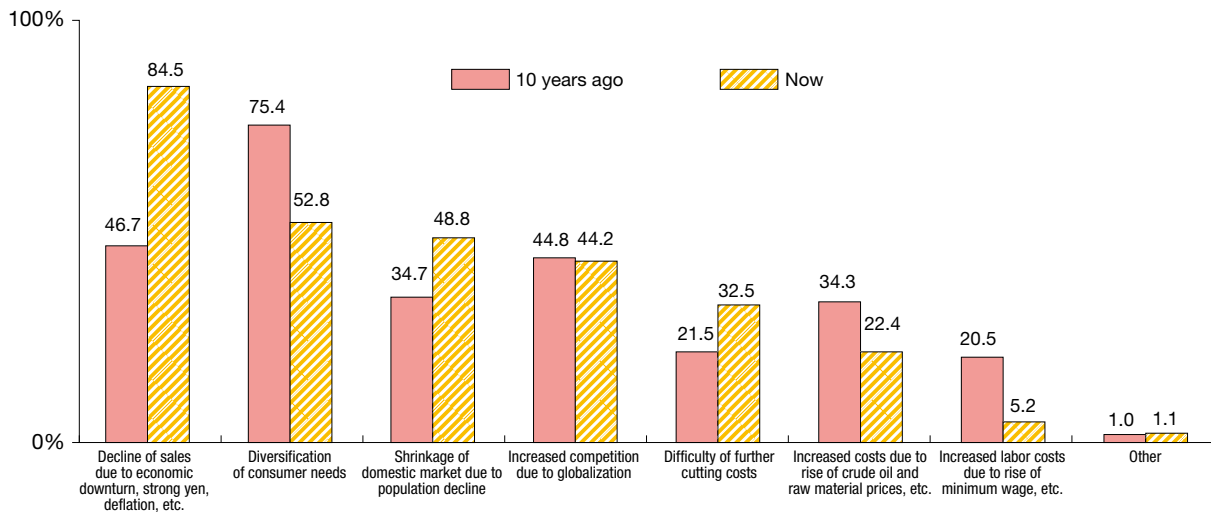
To address this question, we first identify the problems encountered when SMEs attempt to raise labor productivity, and analyze what forms of action and support are needed to enable SMEs to effectively raise their labor productivity in the future.

**● Problems encountered when raising labor productivity and responses**

Fig. 3-2-12 shows the problems encountered by SMEs when attempting to increase labor productivity 10 years ago and now. From this, it can be seen the commonest problem now, cited by 84.5% of respondents, is “decline of sales due to economic downturn, strong yen, deflation, etc.,” followed by “diversification of consumer needs” (52.8%) and “shrinkage of domestic market due to population decline” (48.8%). Compared with perceptions of 10 years ago, higher proportions of enterprises now regard “decline of sales due to economic downturn, strong yen, deflation, etc.,” “shrinkage of domestic market due to population decline,” and “difficulty of further cutting costs” as problems. In the wake of the earthquake, these issues are likely to grow even important.

**Fig. 3-2-12 Problems encountered by SMEs when raising labor productivity**

Compared with a decade ago, higher proportions of enterprises now regard “decline of sales due to economic downturn, strong yen, deflation, etc.,” “shrinkage of domestic market due to population decline,” and “difficulty of further cutting costs” as problems, and the earthquake is likely to have made them even more important.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

How then do SMEs' cost structures differ according to size? Fig. 3-2-13 shows the proportions of expenses and operating profits relative to SME sales according to industry and number of employees. In all industries, the operating profit ratio tends to be lower at smaller enterprises, indicating that circumstances are more difficult for them.

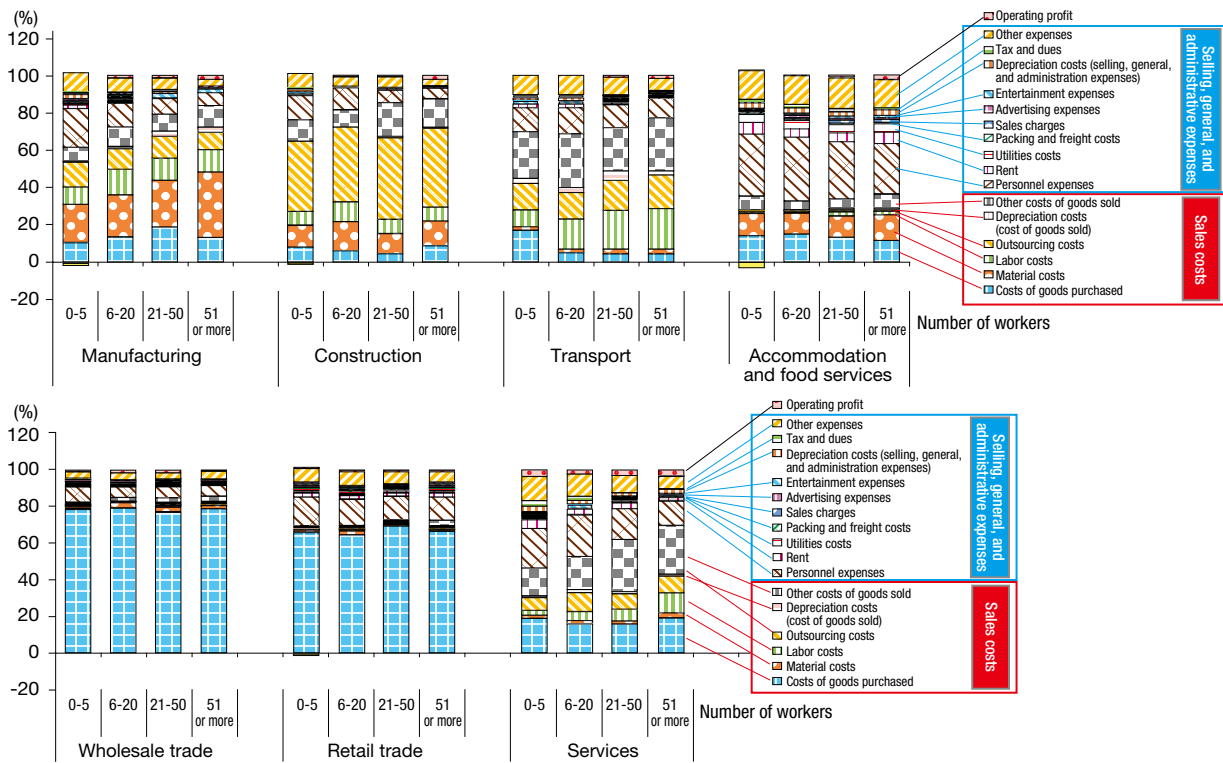
Breaking expenses down into its individual components reveals that distribution costs account for a high proportion of the total in all industries except accommodations and food services. In the wholesale trade and retail trade, costs of goods purchased account for a particularly high

proportion of the total (70% to 80%). In accommodations and food services, on the other hand, labor costs are highest, reflecting the labor-intensive nature of these industries.

While the breakdown of expenses thus varies according to industry, it can be seen that sales costs, which fluctuate according to changes in sales, and personnel expenses account for the bulk of the total in all industries. For SMEs that have already slashed their expenses, therefore, there would appear to be limits to how much further they can raise labor productivity through further cuts.

**Fig. 3-2-13 SMEs' expenses to sales ratios and operating profit ratios (fiscal 2009)**

Sales costs account for a high proportion of the total in almost all industries, and personnel expenses' share of selling, general and administrative expenses is high.



Source: SME Agency, 2009 Basic Survey of Small and Medium Enterprises.

Note: "Services" includes information and communications, real estate, goods rental and leasing, scientific research, professional and technical services, life-related services, entertainment and recreation services, and services.

How then are SMEs raising labor productivity in the face of declining sales due to external factors (such as the state of the economy), shrinkage of the domestic market, and the difficulty of making further cuts to expenses?

Generally speaking, there are two main ways of raising labor productivity: by increasing value added and by raising efficiency. Value added is increased by, for example, developing products and services that generate new value added, thereby increasing the amount of value added produced by the inputs of factors of production

such as labor and capital. Efficiency, on the other hand, is raised by reducing the inputs of factors of production required to generate the same level of value added. This is achieved by such means as streamlining operations and upgrading facilities to raise production efficiency.

A comparison of SMEs' attitudes toward increasing value added and raising efficiency now and 10 years ago (Fig. 3-2-14) reveals that more enterprises now recognize the importance of increasing value added.

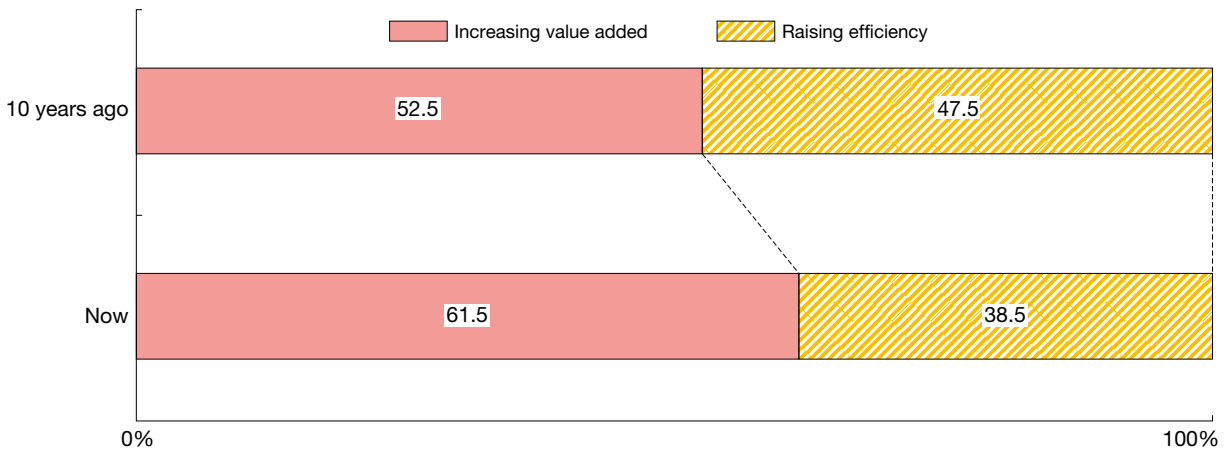
Fig. 3-2-15 shows which of expanding value added and raising efficiency SMEs believe that they should focus on in the short term and in the medium to longer term. It can be seen from this that a higher proportion of enterprises believe the focus should be placed on expanding value added from a medium- to long-term perspective.

It may be concluded from these results that, while accepting the importance of adapting to increased energy

supply constraints following the earthquake and otherwise raising efficiency under the current severe business conditions, SMEs recognize the importance in the medium to longer term of increasing value added by such as means as expanding their number of clients, raising spending per customer, hiring and developing human resources, and pursuing technological innovation.

**Fig. 3-2-14 Important ways of raising labor productivity (10 years ago and now)**

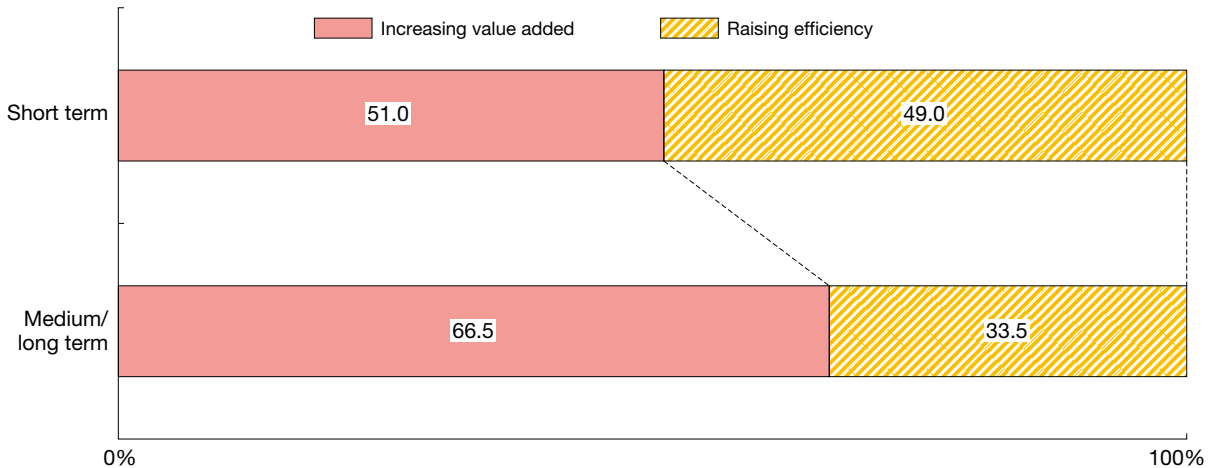
Compared with a decade ago, the proportion of SMEs that stress increasing value added is now higher.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

**Fig. 3-2-15 Important ways of raising labor productivity (short term and medium/long term)**

A higher proportion of SMEs attach importance to increasing value added as a medium/long-term strategy than as a short-term strategy.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

Note: "Short term" signifies action that can be taken to address issues arising routinely or unexpectedly in business. "Medium/long term" signifies action that is directed toward an enterprise's future continued growth.

● **Support for raising labor productivity**

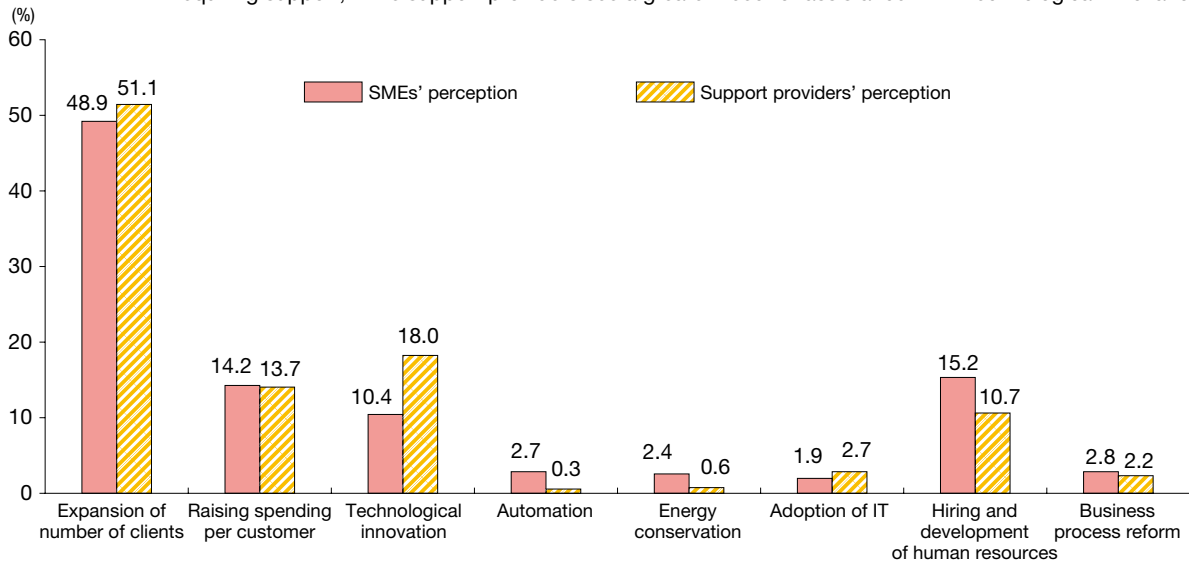
Above we examined the problems encountered when raising labor productivity and the strategies actions adopted in response. Just as the proportions of enterprises implementing each of the types of action described in Subsection 2 vary, however, so too do various constraints make it unfeasible for SMEs to exhaustively undertake all kinds of action under their own steam. Appropriate support meeting SME needs is therefore needed.<sup>11)</sup>

Fig. 3-2-16 shows SMEs' support needs and support providers' perceptions of their needs. This reveals that support providers' perceptions of SME needs largely

coincide with actual needs. Need for assistance with expansion of number of clients is identified by the largest proportion of providers by far, and there is also comparatively high recognition of the need for assistance with raising spending per customer, hiring and development of human resources, and technological innovation. Comparing the two groups reveals that SMEs believe there to be a greater need for assistance with hiring and development of human resources, while a higher proportion of support providers see technological innovation as an area of need.

**Fig. 3-2-16 SMEs' support needs**

High proportions of both SMEs and support providers see a need for assistance with "expansion of number of clients," "raising spending per customer," "hiring and development of human resources," and "technological innovation." SMEs are more likely to see "hiring and development of human resources" as requiring support, while support providers see a greater need for assistance with "technological innovation."



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.  
 Note: Totals do not necessarily sum to 100 due to multiple responses.

Next, we outline what effective forms of support are available to help SMEs to raise their labor productivity.

Chambers and societies of commerce and industry organize a wide range of seminars and lectures, including events for proprietors on themes such as business planning and enhancement of sales capabilities, and employee training events tackling themes such as business skills and manners, and it is hoped that these will prompt SMEs to engage in action to raise labor productivity.

Federations of SMEs associations run "SME association opportunity development programs" to assist projects being pursued by SME associations and similar organizations to address a variety of needs that SMEs find it hard to tackle by themselves, such as the strengthening of their business foundations, regional development, and meeting of social needs, and these can be used by SMEs when they collaborate to engage in joint action to raise labor productivity.

So what measures are available to help SMEs raise

their labor productivity? As Fig. 3-2-15 shows, SMEs recognize the importance of taking steps to increase value added in order to raise labor productivity over the medium to longer term. One means of contributing to raising value added consists of providing support for agricultural-commercial-industrial collaborations formed by SMEs, new partnerships, and use of local resources. Support of this kind is provided using budgetary provision, lending, and so on, and is targeted at the development of new products and services and development of markets for them by SMEs that have prepared and had approved any of the following types of plan provided for by law: "agricultural-commercial-industrial collaboration business plans," "plans for development of new business fields through cross-field collaboration," and "plans to operate business based on regional industrial resources." SME Support, Japan uses experts to provide advice on plan approval and follow-up support in areas such as market development at every stage from business planning

11) Regarding actual provision of specific forms of support by support providers, see Appended Note 3-2-2.



to commercialization and bringing to market. Support is also provided in the form of loans to SMEs developing new products or services under “management innovation plans,” and it is hoped that SMEs will be able to raise their labor productivity through effective use of such arrangements.

In the preceding sections, we have demonstrated that it is essential that SMEs raise their labor productivity to offset future declines in the number of employed in Japan due to population decline, the falling birthrate, and demographic aging, and to achieve further economic growth. We have also surveyed the state of action by enterprises to raise labor productivity and the effects on enterprises of taking such action, and have identified the problems encountered by enterprises when they seek to raise labor productivity and the importance of providing effective support to enable them to overcome them.

The above findings show that while it is also necessary for SMEs to adapt to cope with the increased energy supply

constraints following the earthquake and to otherwise raise their efficiency, the continued future growth of the Japanese economy also depends on action by SMEs to raise their labor productivity by such means as market expansion (by expanding their number of clients, raising spending per customer, and so on), hiring and developing human resources, and pursuing technological innovation. As the effects of such types of action take time to become apparent and can moreover be hard for SMEs to undertake by themselves under difficult business conditions, support providers have to accurately identify SMEs’ support needs and provide effective support to meet these needs.

Our primary focus above was on the types of action that SMEs can take domestically to raise their labor productivity. In Section 2, we turn our attention to discuss how SMEs can take advantage of business opportunities beyond Japan’s shores to expand their markets in the face of shrinking domestic demand.

## Section 2 Taking up of international business opportunities

The effect of the Great East Japan Earthquake has been to further accelerate the shrinkage of domestic demand and intensification of global competition. Exports and numbers of foreign visitors to Japan have declined, and there have been signs of some foreign enterprises and affiliates leaving the Japanese market. Conditions thus remain extremely severe.<sup>12)</sup> Given the unlikelihood of any major increase in domestic demand in the medium to longer term, Japan’s SMEs consequently need to target business opportunities abroad, where high growth continues, if they themselves are to grow further. There are basically

two ways of doing so. The first is to “globalize”<sup>13)</sup> and sell or deliver goods and services overseas, and the second is to take advantage of international business opportunities available within Japan without globalizing.<sup>14)</sup> In this section, we begin by describing the current situation of exports and foreign direct investment (FDI) by SMEs. We then proceed to analyze what features distinguish SMEs that have globalized successfully, and how SMEs that have not globalized should take advantage of international business opportunities from within Japan.

### [1] Present state of exports and FDI by SMEs

Before discussing Japanese SMEs’ targeting of

international business opportunities, we begin by examining trends in growth of foreign markets and the present state of exports and FDI by Japanese SMEs.

12) Preliminary estimates of exports in March 2011 according to that month’s *Trade Statistics for Japan* indicate that exports fell 2.2% from a year earlier to ¥5.9 trillion, their first drop in 16 months. Ministry of Justice (MOJ) statistics similarly reveal a surge in departures of foreign nationals from Japan and a sharp drop in the number of entrants. See MOJ, *Foreign Entries and Departures after the Great East Japan Earthquake*. <http://www.moj.go.jp/content/000073059.pdf>

13) Defined as enterprises that engage in: (1) direct exports, (2) indirect exports, (3) FDI, or (4) business tie-ups.

(1) Direct exports are defined as exports cleared through customs by an enterprise itself or under its own name.

(2) Indirect exports are defined as exports to a known party via a trading company, wholesaler, or export agent, etc. in Japan.

(3) FDI is defined as the establishment of a corporation overseas through investment by an enterprise or capital participation by an enterprise in an overseas corporation.

(4) Business tie-ups are defined as the establishment of partnerships in production and distribution through outsourcing of production, loan of production facilities, joint production, or partnership with a distributor under an agreement or contract with a partner that is not a target of FDI.

14) Such as by importing, selling or delivering goods or services to a foreign national visiting Japan, hiring foreign nationals, or developing ties with a foreign affiliate or enterprise.

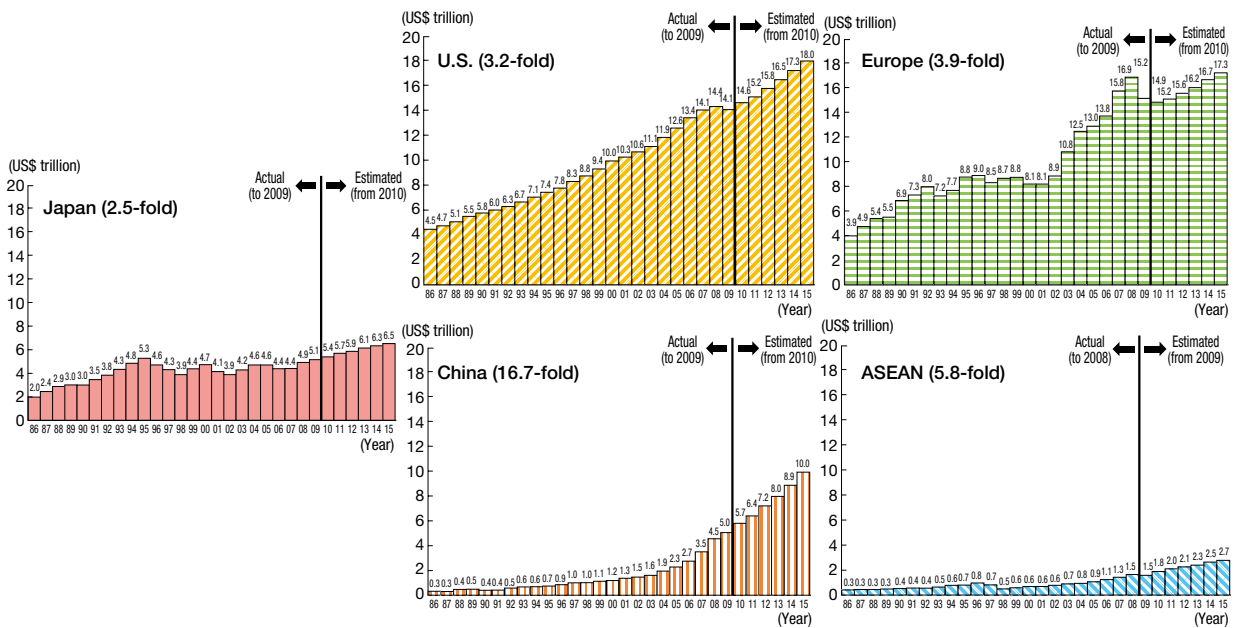
● **Growth in foreign markets**

We begin with Fig. 3-2-17, which depicts trends in nominal GDP in selected countries and regions around the world. This reveals China and ASEAN to have high

nominal GDP growth rates compared with Japan, Europe and the U.S. China in particular has overtaken Japan's nominal GDP and is projected to exhibit continued high growth.

**Fig. 3-2-17 Trends in nominal GDP of selected countries and regions**

The nominal GDPs of China and ASEAN are growing and are expected to continue to do so.



- Source: Compiled by SME Agency from IMF, *International Monetary Fund World Economic Outlook Database, October 2010*.
- Notes:
1. Europe here consists of the following 15 members of the European Union: U.K., Germany, France, Italy, Netherlands, Belgium, Greece, Luxembourg, Denmark, Spain, Portugal, Austria, Finland, Sweden, and Ireland.
  2. ASEAN here consists of the following 10 countries: Malaysia, Thailand, Philippines, Indonesia, Vietnam, Cambodia, Singapore, Laos, Myanmar, and Brunei.
  3. Figures for the nominal GDPs of Europe and ASEAN are the sums of the nominal GDPs of the countries belonging to each region.
  4. Figures for countries/regions excluding ASEAN since 2010 and for ASEAN since 2009 are IMF estimates.
  5. Figures in parentheses indicate most recent actual growth rates compared with 1986.
  6. Note regarding Europe that figures for Germany do not include the GDP of the former East Germany until 1990.

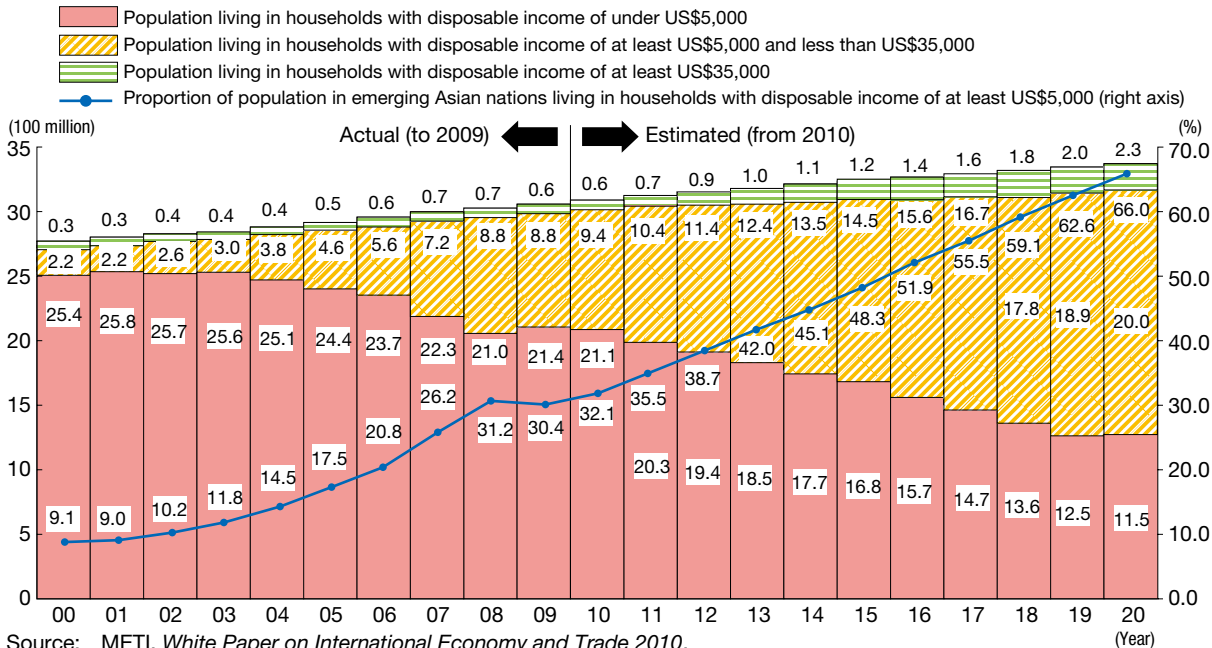
We look next at the populations of emerging Asian nations by household disposable income, shown in Fig. 3-2-18. It can be seen from this that the populations of these countries trended upward until 2009. It can also be observed that while the number of people living in households with a disposable income of less than US\$5,000 followed a downward trend, the number living in households with a disposable income of at

least US\$5,000 followed an upward trend, and that the proportion of the total population consisting of households with a disposable income of at least US\$5,000 also trended upward. From 2010, the number of people belonging to households with a disposable income of at least US\$5,000 is forecast to grow still further. Foreign growth markets mainly in Asia are therefore expected to become increasingly attractive.<sup>15)</sup>

15) Yanagawa and Mori (2010) estimate that, assuming continued smooth economic growth in Asia, the sum of middle-income populations (consisting of people living in households with a disposable income of at least US\$5,000 and less than US\$35,000) and high-income populations (consisting of people living in households with a disposable income of at least US\$35,000) in the 10 countries and regions of India, Indonesia, Korea, Singapore, Thailand, China, Philippines, Vietnam, Hong Kong and Malaysia will be 1.95 billion in 2020, around double the figure of 940 million in 2008. Moreover, even if economic growth in China and India decelerates sharply and if slow growth continues, the combined middle-income and high-income populations of these countries and regions is forecast to reach 1.55 billion in 2020.

**Fig. 3-2-18 Populations of emerging Asian nations by household disposable income**

The size of the population belonging to households with a disposable income of at least US\$5,000 is rising, both in actual numbers and in percentage terms, and is forecast to continue to grow.



Source: METI, *White Paper on International Economy and Trade 2010*.

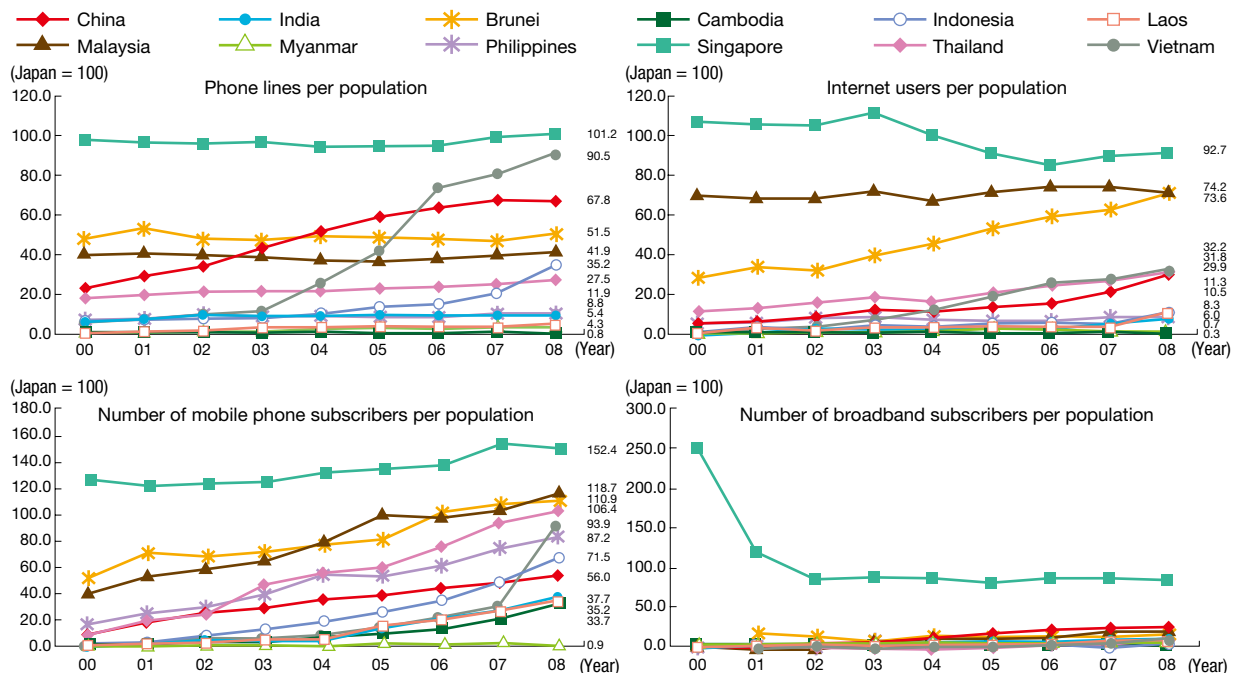
- Notes:
1. Emerging Asian nations here consist of the following 11 countries and regions: India, Indonesia, Korea, Singapore, Thailand, Taiwan, China, Philippines, Vietnam, Hong Kong, and Malaysia.
  2. Calculated by multiplying the proportions of households belonging to each income group according to *Euromonitor International 2010* by population. Euromonitor estimates from 2010 onward.

Comparing Asian countries' IT infrastructures with Japan's, shown in Fig. 3-2-19, it can be seen that their

levels differ from country to country, but in many countries they are approaching the level in Japan by the year.

**Fig. 3-2-19 State of IT infrastructures in Asian countries**

With certain exceptions, IT infrastructures in Asian countries are less developed than Japan's, but they are approaching the level in Japan by the year.



Source: Compiled by SME Agency from World Bank, *World Data Bank* (last updated December 15, 2010), *World Development Indicators*.

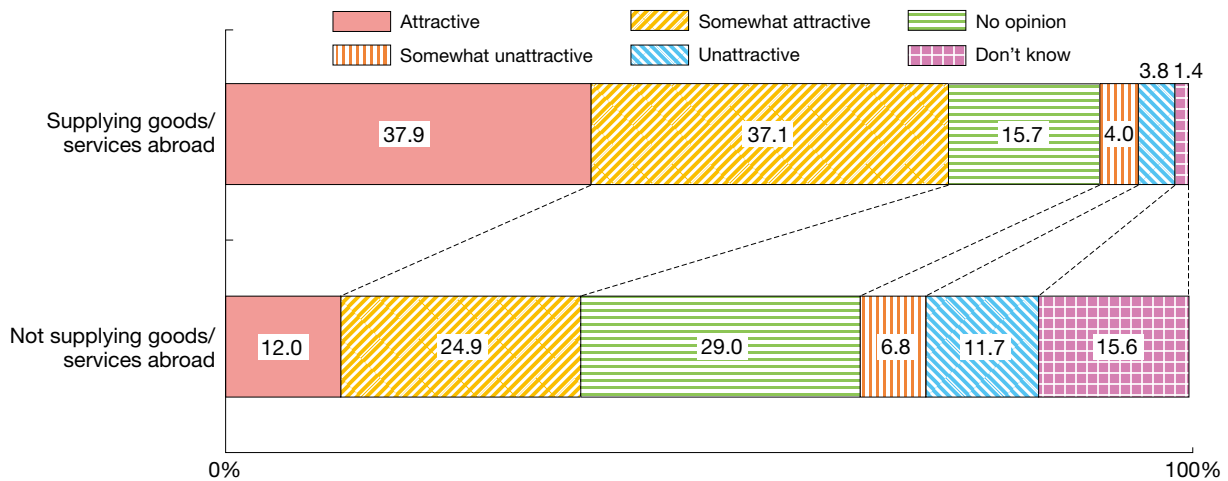
- Notes:
1. Lines indicate each country's level in each year where Japan = 100.
  2. No figures are published on the number of Internet users per population in Myanmar in 2000, and on the number of broadband subscribers per population in Brunei, Cambodia, and Laos in 2000, and Thailand in 2006.

Given that economic growth abroad continues and is expected to increase further in the future, Japan's SMEs need to accurately identify trends in overseas markets, make best use of their strengths, and pursue exports and FDI in order to engage foreign demand. Looking at actual attitudes among SMEs according to the findings of the

*Survey on Targeting of Growth in Overseas Markets*,<sup>16)</sup> we find that, irrespective of whether they are actually selling or delivering ("supplying") goods/services abroad, a high proportion of enterprises regard other countries as attractive regions of consumption (Fig. 3-2-20).

**Fig. 3-2-20 SMEs attitudes toward other countries as regions of consumption**

Irrespective of whether they are actually supplying goods/services abroad, high proportions of enterprises regard other countries as either "attractive" or "somewhat attractive" regions of consumption.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

Note: Only SMEs are included in the above.

● **Current state of exports by SMEs**

We look next at the current situation of enterprises engaging in exports (referred to below as "exporting enterprises"). Fig. 3-2-21 gives a breakdown of exporting enterprises in Japan by category of SMMs. This shows that exporting enterprises make up 2.4% of SMMs. The

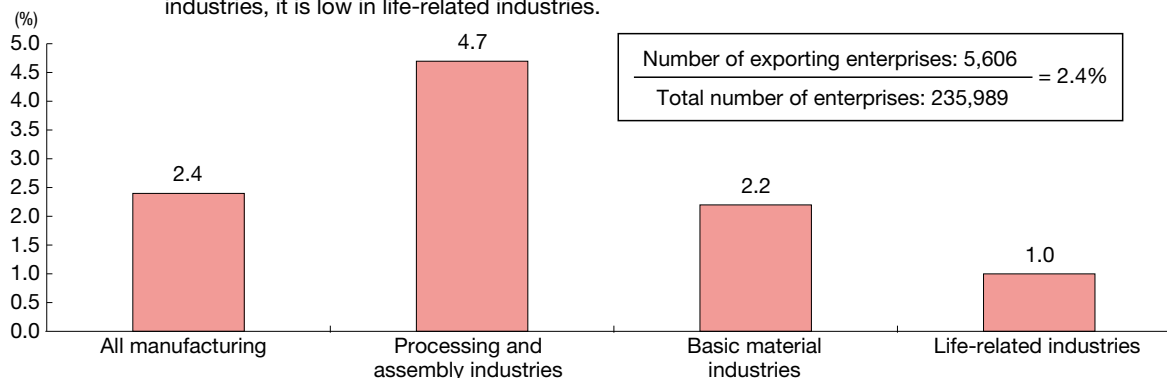
proportion varies according to category of industry within manufacturing, however, with exporting enterprises accounting for approximately 5% of processing and assembly industries but only approximately 1% of life-related industries.<sup>17)</sup>

16) Commissioned by the SME Agency and conducted by Mitsubishi UFJ Research & Consulting Co., Ltd. It consisted of a questionnaire survey of approximately 40,000 SMEs in November 2010. The response rate was 13.9%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

17) For a breakdown of exporting enterprises at the major group of SMMs, see Appended Note 3-2-3.

**Fig. 3-2-21 Breakdown of exporting enterprises by industry (SMMs)**

Exporting enterprises make up 2.4% of SMMs. While the proportion is high in processing and assembly industries, it is low in life-related industries.



Source: Recompiled from METI, 2008 Census of Manufactures.

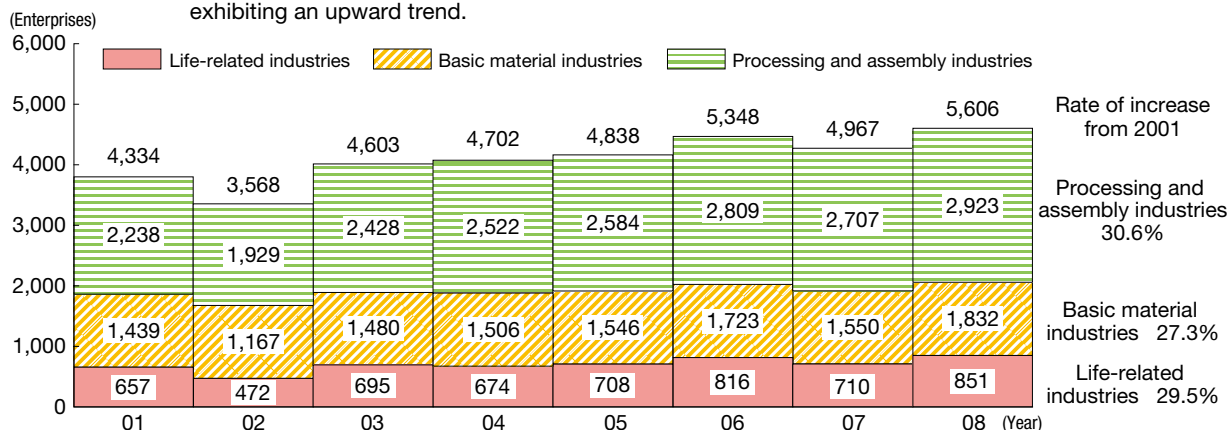
- Notes:
1. "Processing and assembly industries" here consists of the following categories of manufacturing classified according to the *Japan Standard Industry Classification*: general-purpose machinery; production machinery; business-oriented machinery; electronic parts, devices and electronic circuits; electrical machinery, equipment and supplies; information and communications equipment and supplies; transport equipment.
  2. "Basic material industries" here consists of the following categories of manufacturing classified according to the *Japan Standard Industry Classification*: lumber and wood products; chemicals; pulp, paper and paper products; petroleum and coal products; plastic products; rubber products; ceramics, stone and clay products; iron and steel; non-ferrous metals; fabricated metals.
  3. "Life-related industries" here consists of the following categories of manufacturing classified according to the *Japan Standard Industry Classification*: foodstuffs; beverages, tobacco and animal feed; textiles; furniture and fixtures; printing and allied industries; leather tanning, leather products and fur skins; other manufacturing.
  4. *Census of Manufactures* data on business establishments was re-aggregated to produce data at the enterprise level. Accordingly, establishments engaging in direct exports are categorized according to the industrial classification of the enterprise to which they belong.

Trends in the number of exporting enterprises among SMMs are shown in Fig. 3-2-22. As this shows, the number of exporting enterprises has remained between

around 3,500 and 5,600. Although the trend is upward in all industries, there are fears of a decline in the future due to the effects of the earthquake.

**Fig. 3-2-22 Number of exporting enterprises by industry (SMMs)**

The number of exporting enterprises among SMMs had risen to around 5,600 by 2008, with all industries exhibiting an upward trend.



Source: Recompiled from METI, *Census of Manufactures*.

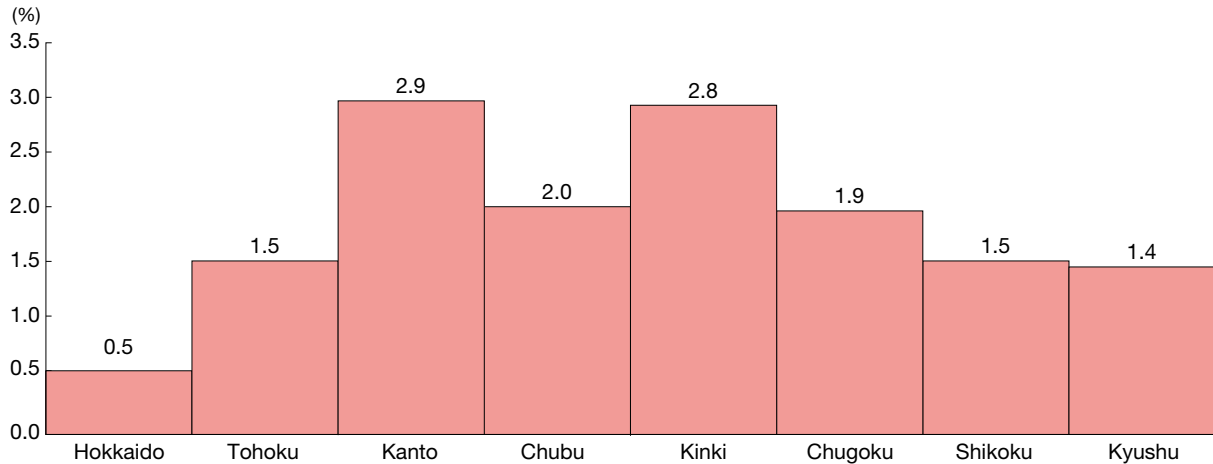
- Notes:
1. "Processing and assembly industries" here consists of the following categories of manufacturing classified according to the *Japan Standard Industry Classification*: general-purpose machinery; production machinery; business-oriented machinery; electronic parts, devices and electronic circuits; electrical machinery, equipment and supplies; information and communications equipment and supplies; transport equipment.
  2. "Basic material industries" here consists of the following categories of manufacturing classified according to the *Japan Standard Industry Classification*: lumber and wood products; chemicals; pulp, paper and paper products; petroleum and coal products; plastic products; rubber products; ceramics, stone and clay products; iron and steel; non-ferrous metals; fabricated metals.
  3. "Life-related industries" here consists of the following categories of manufacturing classified according to the *Japan Standard Industry Classification*: foodstuffs; beverages, tobacco and animal feed; textiles; furniture and fixtures; printing and allied industries; leather tanning, leather products and fur skins; other manufacturing.
  4. *Census of Manufactures* data on business establishments was re-aggregated to produce data at the enterprise level. Accordingly, establishments engaging in direct exports are categorized according to the industrial classification of the enterprise to which they belong.
  5. Industries are classified according to the revised industrial classification of November 2007. Enterprises in years up to 2007 were reclassified in accordance with the latest revision of industrial classification.

We consider next the regional breakdown of exporting enterprises among SMMs, illustrated in Fig. 3-2-23. This

reveals comparatively high proportions in the Kanto and Kinki regions.<sup>18)</sup>

**Fig. 3-2-23 Breakdown of exporting enterprises by region (SMMs)**

There are high proportions of exporting enterprises in Kanto and Kinki regions.



Source: Recompiled from METI, 2008 *Census of Manufactures*.

- Notes:
1. Regions are classified according to the regions of jurisdiction of each of METI's regional bureaus.
  2. Kyushu includes Okinawa.
  3. *Census of Manufactures* data on business establishments was re-aggregated to produce data at the enterprise level. Accordingly, establishments engaging in direct exports are categorized according to the location of the head office of the enterprise to which they belong.

While our concern above was with the current state of exports of SMMs, SMEs can also cater to foreign demand by delivering services to non-Japanese nationals instead of by selling goods abroad. The World Trade Organization's (WTO) General Agreement on Trade in Services (GATS), which entered effect in January 1995, classifies international trade in such services into four

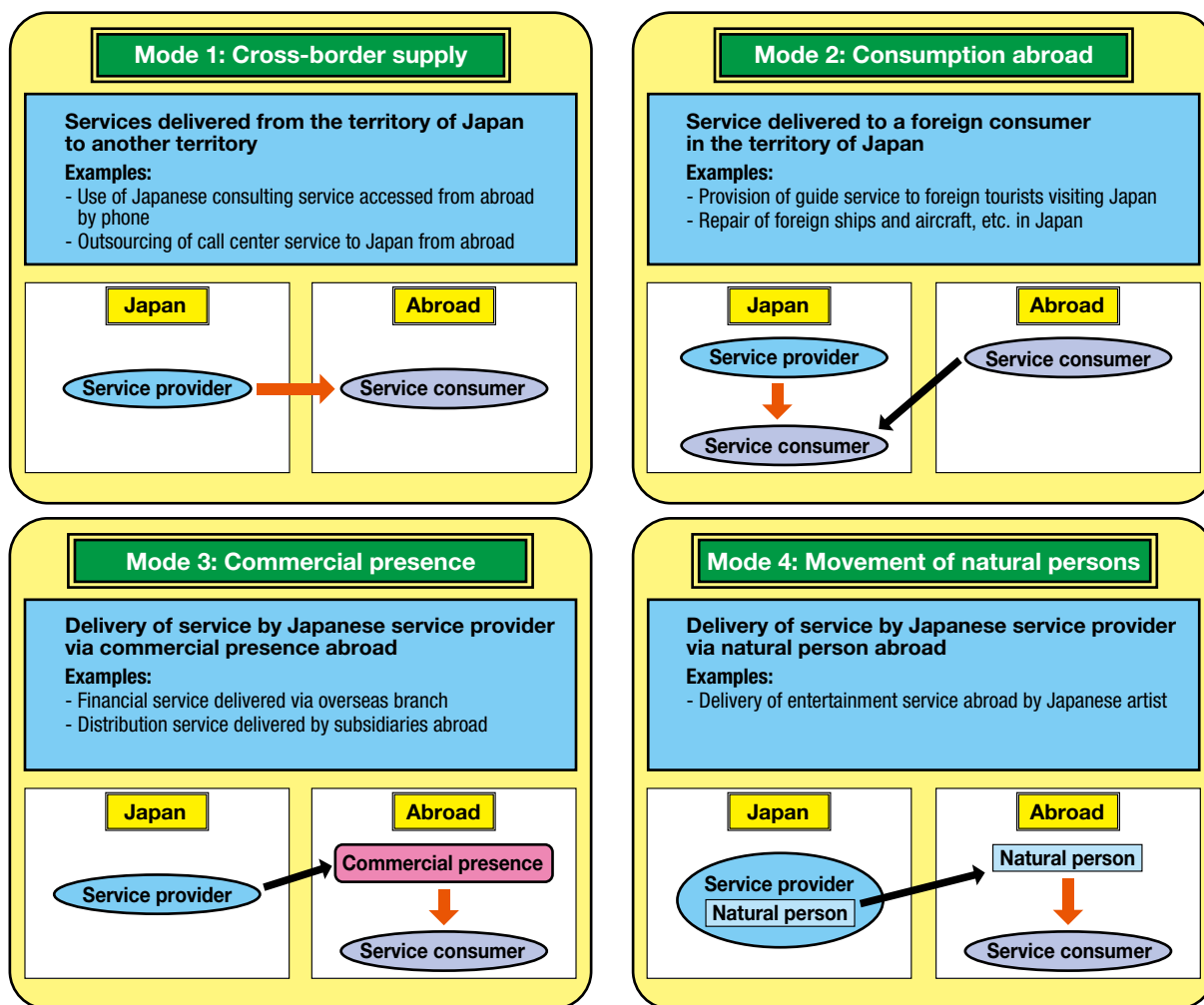
categories according to their mode of supply: (1) cross-border supply, (2) consumption abroad, (3) commercial presence, and (4) movement of natural persons (Fig. 3-2-24). Treating these four modes of supply as constituting "export of services," we examine below the state of such exports.<sup>19)</sup>

18) For a breakdown of exporting enterprises in SMMs by prefecture, see Appended Note 3-2-4.

19) Regarding trends in Japan's balance of international trade in services, the total amount of consideration received by residents (non-residents) from non-residents (residents) is published in the Bank of Japan's (BOJ) *Balance of Payments* in the form of the "balance of services." It must be borne in mind, however, that *Balance of Payments* defines this balance of services differently from GATS. Regarding trends in the balance of services, see Appended Note 3-2-5.

**Fig. 3-2-24 Four modes of international trade in services**

The WTO classifies international trade in services into four categories according to mode of supply.



Source: Compiled by SME Agency from METI, *White Paper on International Economy and Trade 2007*.

Notes: 1. The symbols used above indicate the following:

◄: Movement of people    ◄: Delivery of services

2. Service consumers and service providers can be either natural persons or corporations.

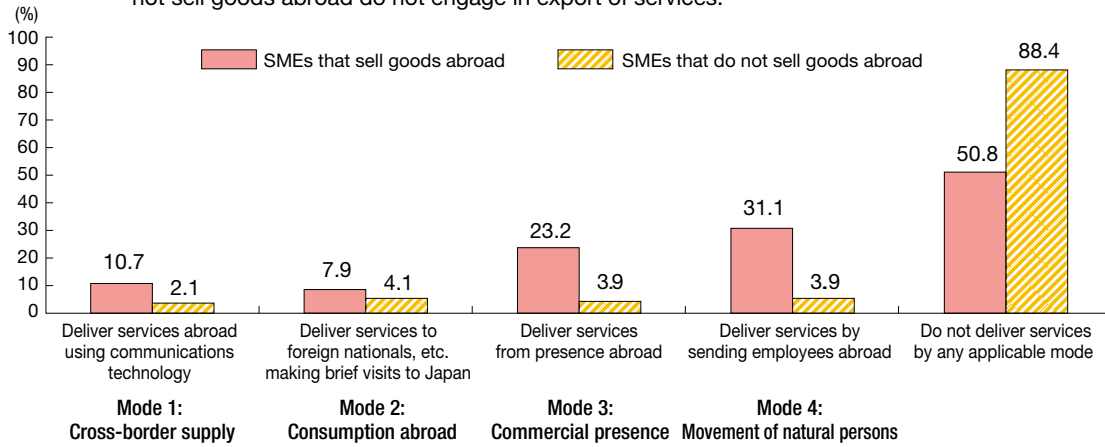
3. Examples of exports of services from Japan are shown above the graphical insets for each category.

Looking at the state of exports of services by Japanese SMEs, we find that approximately 30% of SMEs that sell goods abroad “deliver services by sending employees abroad” and approximately 20% “deliver services from

presence abroad.” Among SMEs that do not sell goods abroad, however, almost 90% do not engage in export of services. Thus proportionately very few SMEs engage solely in export of services (Fig. 3-2-25).

**Fig. 3-2-25 Breakdown of service exporting enterprises**

While approximately 30% of SMEs that sell goods abroad “deliver services by sending employees abroad” and approximately 20% “deliver services from presence abroad,” almost 90% of SMEs that do not sell goods abroad do not engage in export of services.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

- Notes: 1. Only SMEs are included in the above.  
2. Totals do not necessarily sum to 100 due to multiple responses.

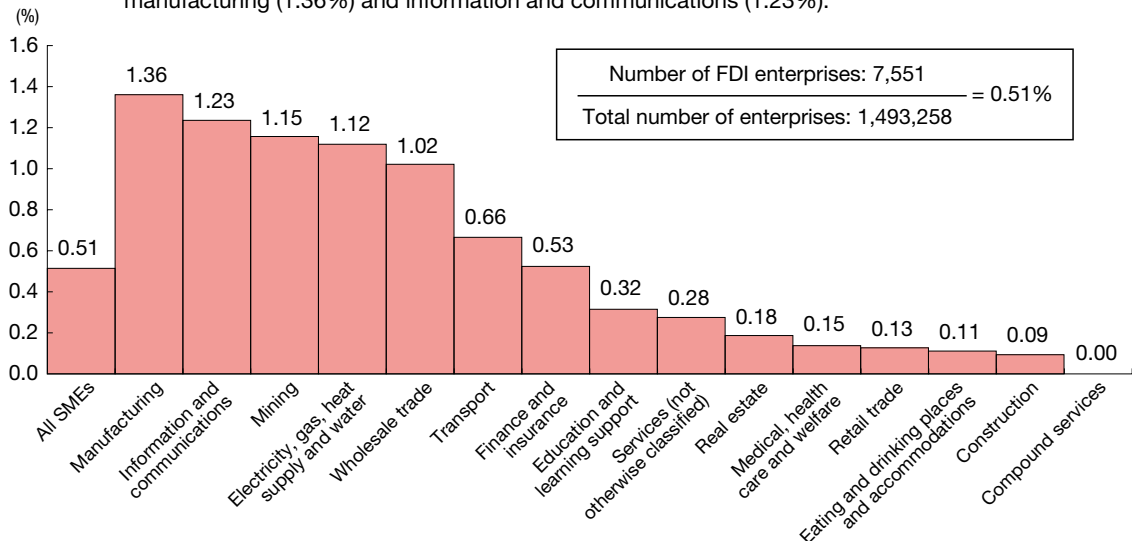
● **Current state of FDI by SMEs**

Next, we examine trends among enterprises that engage in FDI (referred to below as “FDI enterprises”). Fig. 3-2-26 shows a breakdown of FDI enterprises among Japanese SMEs by industry. This reveals that FDI

enterprises account for only 0.51% of all SMEs. Looking at individual industries, we find comparatively high proportions in manufacturing (1.36%) and information and communications (1.23%).<sup>20, 21)</sup>

**Fig. 3-2-26 Breakdown of FDI enterprises by industry (SMEs)**

Only 0.51% of SMEs are FDI enterprises, though the proportions are comparatively higher in manufacturing (1.36%) and information and communications (1.23%).



Source: Recompiled from MIC, *2006 Establishment and Enterprise Census of Japan*.

- Notes: 1. Business establishments of sole proprietors are not included.  
2. Industries are classified according to the revised industrial classification of March 2002.  
3. “FDI enterprises” are here defined as enterprises with overseas subsidiaries or affiliates.  
4. “Subsidiaries” are here defined as companies in which the company concerned owns more than 50% of the voting rights. This includes companies that own more than 50% of the voting rights aggregating the rights owned by subsidiaries of the company or company and its subsidiaries, and companies included in consolidated financial reports even where the proportion of voting rights owned does not exceed 50%.  
5. “Affiliates” are here defined as companies in which the company concerned directly owns at least 20% and not more than 50% of the voting rights.

20) For a breakdown of the proportions of FDI enterprises among SMEs by industry, see Appended Note 3-2-6.

21) Targets of investment by FDI enterprises in manufacturing are not necessarily in manufacturing. In fiscal 2008, 22.4% of Japanese SMMs that were FDI enterprises had non-manufacturing overseas subsidiaries. See Appended Note 3-2-7.

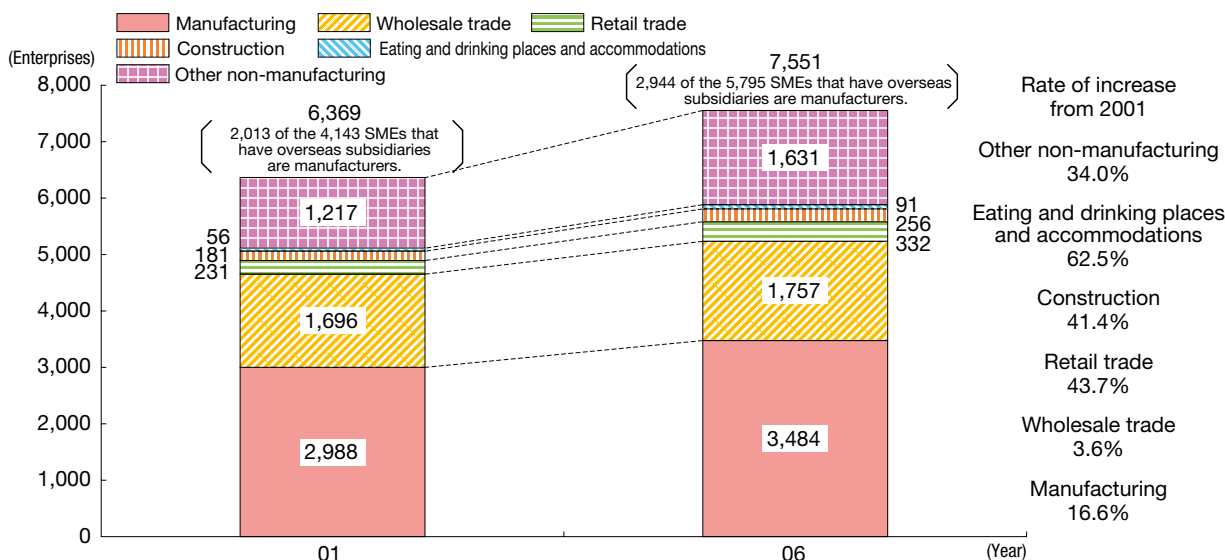


The depiction of trends among SMEs that are FDI enterprises shown in Fig. 3-2-27 shows that there were 6,369 FDI enterprises in 2001. This number had risen to 7,551 in 2006, with growth being particularly marked

in eating and drinking places, accommodations, and the retail trade. However, declines are feared due to the effects of the earthquake.

**Fig. 3-2-27 Number of FDI enterprises by industry (SMEs)**

The number of FDI enterprises rose from 6,369 in 2001 to 7,551 in 2006, with particularly marked growth in eating and drinking places, accommodations, and the retail trade.



Source: Recompiled from MIC, *Establishment and Enterprise Census of Japan*.

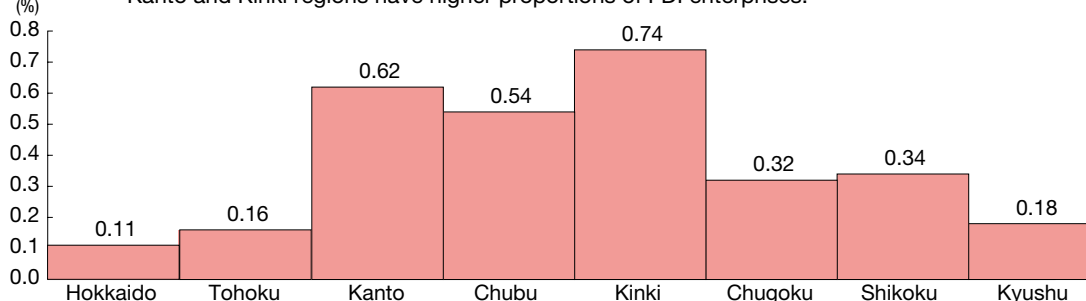
- Notes:
1. Business establishments of sole proprietors are not included.
  2. Industries are classified according to the revised industrial classification of March 2002. The old group items for 2001 were concatenated with the new group items under the new system of classification.
  3. "FDI enterprises" are here defined as enterprises with overseas subsidiaries or affiliates.
  4. "Subsidiaries" are here defined as companies in which the company concerned owns more than 50% of the voting rights. This includes companies that own more than 50% of the voting rights aggregating the rights owned by subsidiaries of the company or company and its subsidiaries, and companies included in consolidated financial reports even where proportion of voting rights owned does not exceed 50%.
  5. "Affiliates" are here defined as companies in which the company concerned directly owns at least 20% and not more than 50% of the voting rights.
  6. According to the recomputed results of MIC, *Economic Census: Basic Survey*, 2,870 of the 5,633 SMEs that had overseas subsidiaries in 2009 were manufacturers. (The *Economic Census: Basic Survey* does not survey affiliates.)
  7. Straightforward comparisons cannot be made adequately between the *Economic Census: Basic Survey* and the *Establishment and Enterprise Census of Japan*, because the former (1) captures a greater range of business establishments and enterprises due its use of commercial and corporate registers and other administrative records, and (2) the adoption of a method of surveying enterprises and establishments en bloc by having head offices report information on their branches and other operations.

Looking next at the regional breakdown of SMEs that are FDI enterprises, shown in Fig. 3-2-28, we find

comparatively higher proportions of FDI enterprises in the Kanto and Kinki regions.<sup>22)</sup>

**Fig. 3-2-28 Breakdown of FDI enterprises by region (SMEs)**

Kanto and Kinki regions have higher proportions of FDI enterprises.



Source: Recompiled from MIC, *2006 Establishment and Enterprise Census of Japan*.

- Notes:
1. Regions are classified according to the regions of jurisdiction of each of METI's regional bureaus.
  2. Kyushu includes Okinawa.
  3. "FDI enterprises" are here defined as enterprises with overseas subsidiaries or affiliates.
  4. "Subsidiaries" are here defined as companies in which the company concerned owns more than 50% of the voting rights. This includes companies that own more than 50% of the voting rights aggregating the rights owned by subsidiaries of the company or company and its subsidiaries, and companies included in consolidated financial reports even where proportion of voting rights owned does not exceed 50%.
  5. "Affiliates" are here defined as companies in which the company concerned directly owns at least 20% and not more than 50% of the voting rights.

22) For a breakdown of the proportions of SMEs that are FDI enterprises by prefecture, see Appended Note 3-2-8.

To summarize the above overview of trends in growth of overseas markets and the current situation regarding exporting enterprises and FDI enterprises among Japan's SMEs, small proportions of SMEs are exporting enterprises or FDI enterprises, and the proportions of each

vary according to industry and region.

In Subsection 2, we look at the characteristics of SMEs that engage in globalization and the steps that enterprises need to take in order to globalize successfully.

### Case 3-2-10

#### A company that developed high value added yarns using advanced technology and gained international status

Sato Seni Co. Ltd. is engaged in the manufacturing and sales of all types of knit goods, yarn and fashion products in Sagae City, Yamagata Prefecture with 130 employees and capital of ¥54.1 million. The company's strengths lie in its ability to both spin yarn, which becomes the raw material, and to use it to manufacture finished goods as well. Sensing the need to produce high value added goods, from 1998 Sato Seni began research and development on unique yarns with a form and quality that other companies cannot imitate.

By drawing together the high-level skills of the company's experienced craftsmen and accumulating research and development, Sato Seni successfully developed various high value added yarns such as a yarn with varying thickness and color, and a mohair yarn much finer than prior yarns. Making use of this opportunity, the company released its own apparel brand using its proprietary yarns at a U.S. trade fair in 2001. Sato Seni also exhibited its industrial knit yarns at a trade fair in Italy in 2007, and has begun transactions with various brand manufacturers.

Sato Seni has now attained international status in the specialty yarns field. U.S. First Lady Michelle Obama wore a cardigan made from Sato Seni's mohair yarn at the January 2009 presidential inauguration ceremony and the December 2009 Nobel Peace Prize award ceremony.



Fuga 1/44mm mohair yarn developed by Sato Seni, which is much finer than prior yarns

### Case 3-2-11

#### A company supported by Chinese, which operates a luxury wedding hall in Shanghai

Kazumi Co., Ltd. is a company based in Kanazawa City, Ishikawa Prefecture which stages weddings and operates wedding halls in Ishikawa Prefecture, Toyama Prefecture, Fukui Prefecture and Shanghai (China) with 80 employees and ¥33 million in capital.

Kazumi was originally engaged in the rental of Italian luxury brand wedding clothing. From around 2000, however, wedding halls offering complete services opened one after another in Ishikawa Prefecture. The demand for the wedding clothing rental business declined, so Kazumi built a European style luxury wedding hall in 2004 to expand its business content. The company advanced the comprehensive staging of weddings, attracting customers by emphasizing luxury far outside daily life covering everything from the wedding feast to the makeup.

With the opening of regular flights between Komatsu Airport and Shanghai Pudong International Airport in 2004, Kazumi workers visited Shanghai on a company trip. Seeing the huge number of people there, they concluded that there must be business opportunities in China. Kazumi conducted market research which indicated that young people in Shanghai were dissatisfied with the local wedding hall services. Looking at China's vibrant economic growth, and with data indicating that China's one child policy resulted in large consumption per child, Kazumi decided to start business in China. The company opened a wedding hall in Shanghai in 2008 offering the same "Bride and Groom Star for a Day" luxury service provided in Japan. This service has been well received by Chinese youth. Even though the Kazumi wedding services are relatively expensive, the hall is packed with reservations every weekend. Kazumi plans to keep expanding its business contents, using the experience gained in Japan to provide highly refined, comprehensive wedding services that other companies cannot copy.



Wedding hall in Shanghai operated by Kazumi Company

### Case 3-2-12

## A company that advanced overseas using its heat treatment processing technology

Tohken Thermo Tech Co., Ltd. is engaged in consigned processing centered on automobile parts using a wide range of heat treatment processing technologies. The company is based in Osaka City, Osaka Prefecture with 610 employees and capital of ¥88 million.

Tohken Thermo had long hoped to conduct business overseas using its heat treatment processing technologies, and the company established a local subsidiary in Thailand in 1995 when one of its main customers—an automobile parts manufacturer—established a production base in Thailand. Tohken Thermo advanced into Malaysia in 1996, where it won its first contract from a home appliances manufacturer.

Since that time, Tohken Thermo has continued to sell its strong technical abilities to Japanese-affiliated companies. Tohken Thermo overcame the harsh environment following the 1997 Asian currency crisis, and steadily initiated trading with Japanese-affiliated companies, even though the company never provided services to their parent firms in Japan. Tohken Thermo is receiving increasing orders from local companies as well.

President Osamu Kawasaki says, “The local companies are not satisfied with the quality provided by the local heat treatment processing firms. If we compete on quality rather than price, there are many business opportunities overseas. The key to success is to move overseas quickly. If we stay in Japan, we will have no opportunity to use our accumulated technology, and this priceless jewel will become worthless.” Tohken Thermo entered China in 2011 and is working at further business expansion.



Heat treatment processing  
at Tohken Thermo's Thai subsidiary

## [2] Action taken by SMEs to globalize<sup>23)</sup> and characteristics of SMEs that globalize successfully

The questions we seek to answer below are: How do SMEs go about globalizing themselves? What distinguishes those that do so successfully? And what actions do they take? In this Subsection, we describe how SMEs globalize themselves and identify the characteristics that distinguish those that globalize successfully.

### ● Nature of goods and services supplied abroad by SMEs that globalize

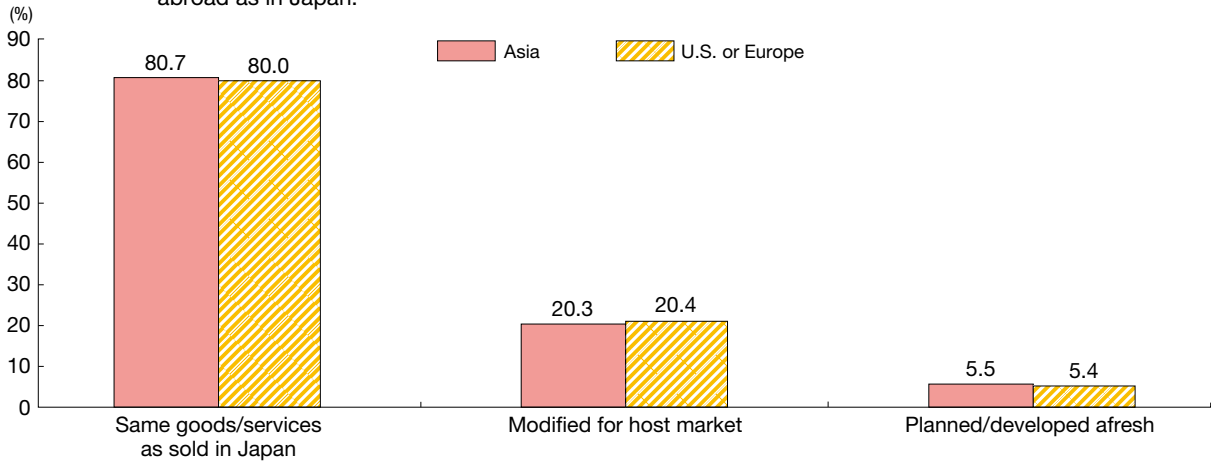
We begin by examining the nature of the goods and services supplied abroad by SMEs that globalize. Fig. 3-2-29 shows the nature of the differences (if any) between the core goods/services<sup>24)</sup> supplied overseas and those supplied in Japan. This reveals that, regardless of region, approximately 80% of SMEs report that they supply the same goods/services overseas as in Japan. On the other hand, approximately 20% of enterprises modify their goods/services for their host markets, and approximately 5% say that they plan and develop them afresh.

23) The term “globalization” is used in this Subsection to refer to three of the four modes of supply described on p. 263 ((1) cross-border supply, (2) commercial presence, and (4) movement of natural persons) as well as the four forms of globalization described on p. 258 ((1) direct exports, (2) indirect exports, (3) FDI, and (4) business tie-ups). The second mode of export of services ((2) consumption abroad) is analyzed in Subsection 3.

24) In this section, the term “core goods/services” is used to refer to those goods and services that account for the largest proportion of an SME’s supply abroad.

**Fig. 3-2-29 Goods and services supplied abroad**

In both Asia and the U.S. or Europe, approximately 80% of enterprises supply the same goods/services abroad as in Japan.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

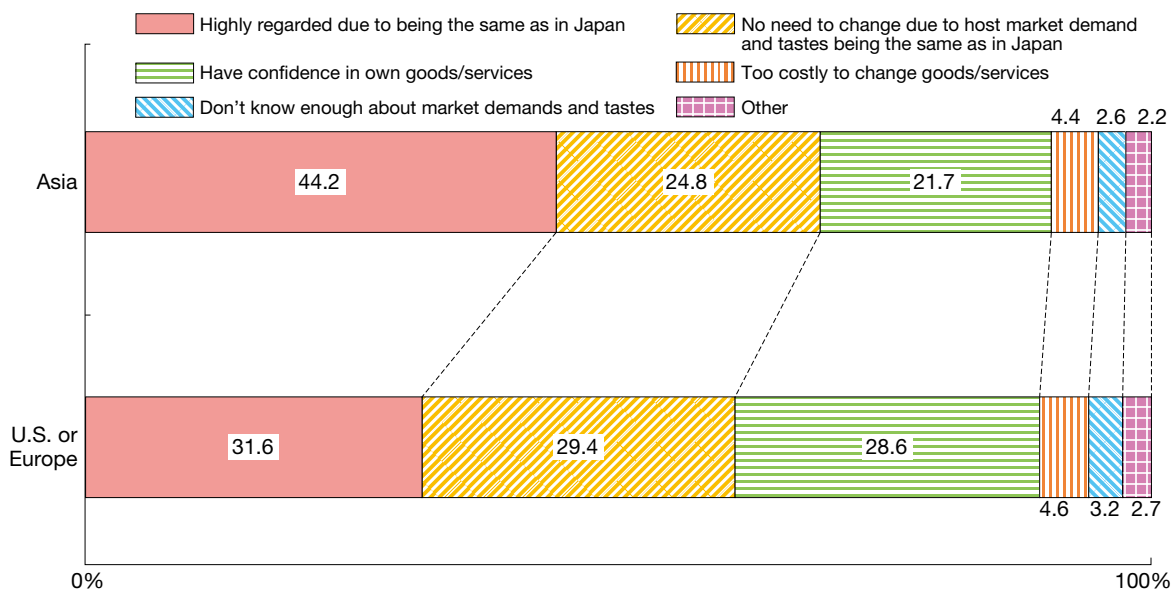
- Notes:
1. Only SMEs are included in the above.
  2. Totals do not necessarily sum to 100 due to multiple responses.

Enterprises' reasons for supplying the same goods/services abroad as in Japan are shown in Fig. 3-2-30, from which it may be observed that a high proportion of enterprises believe that they are "highly regarded due to being the same as in Japan," and this tendency is

particularly pronounced in the case of enterprises doing business in Asia. At the same time, however, 20% to 30% of enterprises believe that there is "no need to change due to host market demand and tastes being the same as in Japan."

**Fig. 3-2-30 Reasons for supplying same goods/services abroad as in Japan**

In both Asia and the U.S. or Europe, high proportions of enterprises believe that their goods/services are "highly regarded due to being the same as in Japan," and this tendency is particularly pronounced in Asia.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

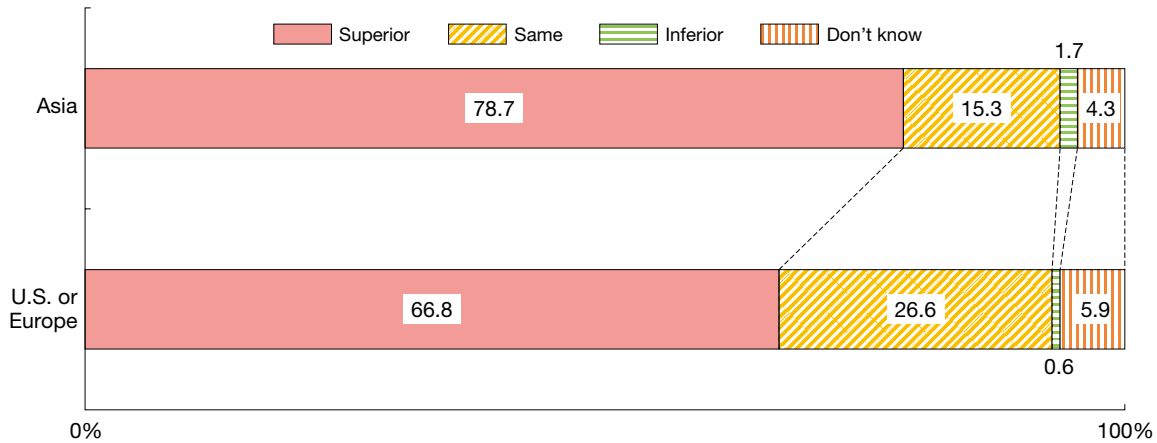
Note: Only SMEs that are supplying the same goods/services abroad as in Japan are included in the above.

Next, we examine the relationship between core goods/services and competing goods/services in host markets. Fig. 3-2-31 depicts the quality of core goods/services supplied abroad by SMEs in comparison with the local competition. According to this, approximately 80%

of enterprises in Asia and approximately 70% in the U.S. or Europe consider their goods/services to be of superior quality than their local competitors, and the proportion of SMEs that consider their goods/services to be inferior in quality is extremely low.

**Fig. 3-2-31 Quality of goods/services compared with local competition**

Approximately 80% of enterprises in Asia and 70% in the U.S. or Europe consider their goods/services to be of superior quality than their local competitors.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

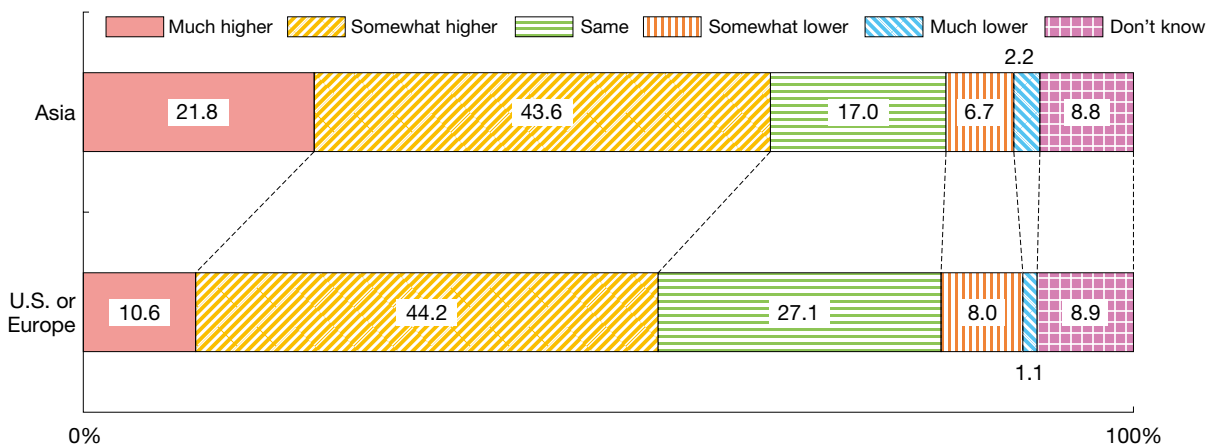
Note: Only SMEs are included in the above.

Next, Fig. 3-2-32 shows the prices of core goods/services supplied abroad by SMEs in comparison with the local competition. This reveals that over 60% in

Asia and over 50% in the U.S. or Europe consider their goods/services to be more expensive than their local competitors.

**Fig. 3-2-32 Prices of goods/services compared with local competition**

Over 60% of SMEs in Asia and over 50% in the U.S. or Europe consider the prices of their goods/services to be “much higher” or “somewhat higher” than their local competitors.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

Notes: 1. Only SMEs are included in the above.

2. “Much” here means at least a twofold difference, and “somewhat” means a less than twofold difference.

We may conclude from these results that many SMEs, recognizing that their goods/services are highly regarded due to being the same as in Japan or there is no need to change them due to host market demand and tastes being the same as in Japan, supply the same goods/services abroad as in Japan, and these are of better quality and are more expensive than the local competition,

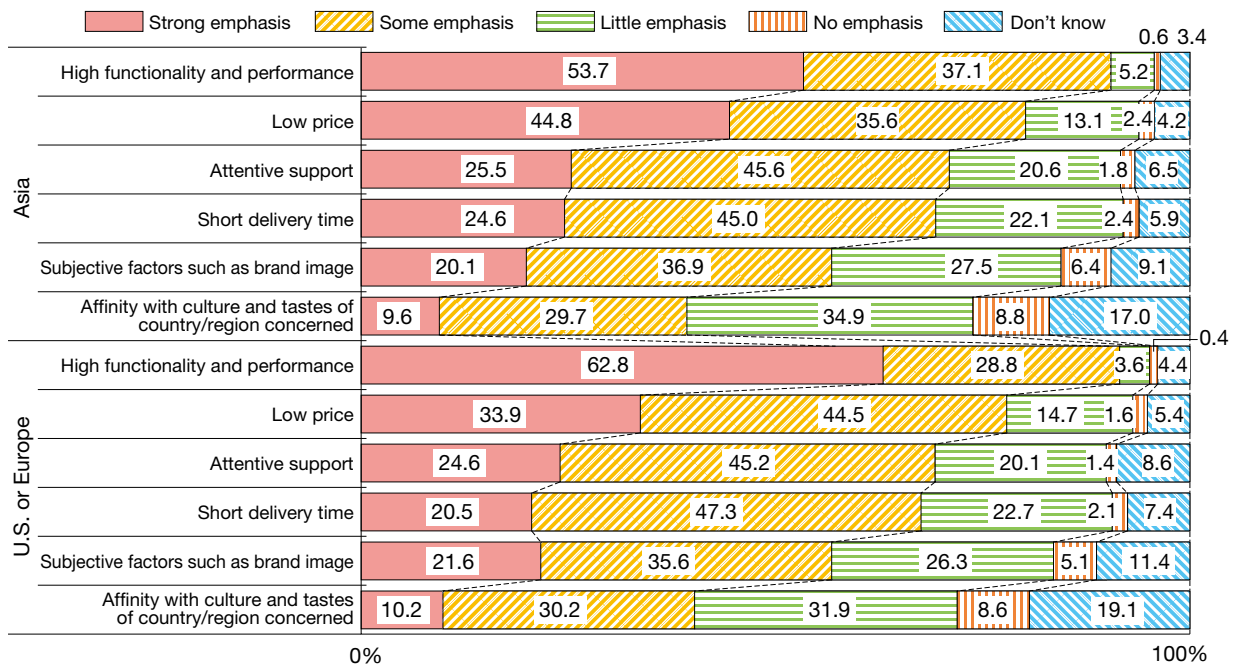
● **Preferences emphasized by principal customers and state of acquisition of market share**

Next, we consider the preferences of the principal customers at which SMEs target their core goods/services abroad. According to Fig. 3-2-33, high proportions of

enterprises consider their principal customers in host markets to place a “strong emphasis” or “some emphasis” on “high functionality and performance,” “low price,” “attentive support,” “short delivery time,” “subjective factors such as brand image,” and “affinity with culture and tastes of country/region concerned.” In both Asia and the U.S. or Europe, over 90% of enterprises consider the principal customers in their host markets to place a “strong emphasis” or “some emphasis” on “high functionality and performance.” This indicates that Japanese SMEs see their host markets as seeking high quality from the goods/services that they supply.

**Fig. 3-2-33 Preferences emphasized by principal customers in host markets**

In both Asia and the U.S. or Europe, high proportions of enterprises believe that the principal customers in their host markets prefer high levels of functionality and performance.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

Note: Only SMEs are included in the above.

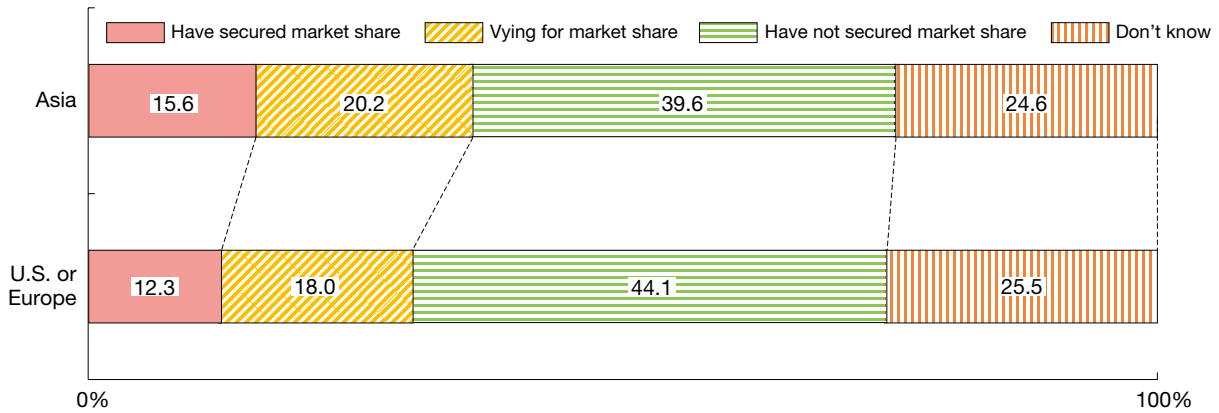
We move on now to examine the state of acquisition of market share by SMEs in their host markets. Given that, as Fig. 3-2-31 demonstrated, the goods/services supplied by Japanese SMEs are of high quality and quality is sought in host markets, Japanese SMEs may be expected to have secured a certain degree of market share in their

host markets.

As Fig. 3-2-34 shows, however, fewer than 20% of enterprises in both Asia and the U.S. or Europe consider themselves to “have secured market share” in their host countries.

**Fig. 3-2-34 State of acquisition of market share**

In both Asia and the U.S. or Europe, fewer than 20% of enterprises consider themselves to “have secured market share.”



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

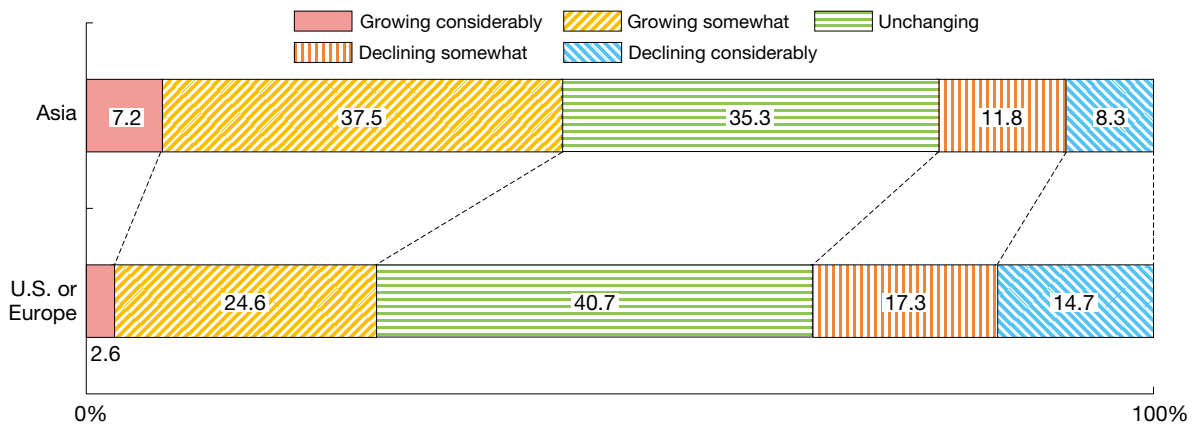
Note: Only SMEs are included in the above.

What then of trends in sales overseas? It can be seen from Fig. 3-2-35 that fewer than 10% of SMEs report that sales are “growing considerably,” indicating that Japanese

SMEs are struggling to expand their sales in overseas markets.

**Fig. 3-2-35 Current trends in sales in host markets**

In both Asia and the U.S. or Europe, fewer than 10% of enterprises report that sales are “growing considerably.”



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

Notes: 1. Only SMEs are included in the above.

2. “Considerably” indicates a change of at least 20%, and “somewhat” indicates a change of less than 20%.

The nuclear crisis in Fukushima is making it more difficult for SMEs to market their goods and services overseas, with exports of products from Japan being subject to restrictions (including having to undergo radiation inspection or being prohibited) in some countries and regions.<sup>25</sup> In order to ensure that the authorities in other countries and regions do not overreact and adopt scientifically baseless measures, therefore, the Japanese Government is (1) providing accurate information by, for example, organizing briefings and placing articles in newspapers and other media, both in Japan and overseas, and (2) where necessary, making use of opportunities such as summits and ministerial meetings to urge individual countries and regions to ensure their responses are appropriate. (For radiation inspection cost subsidies, see Column 3-2-2.)

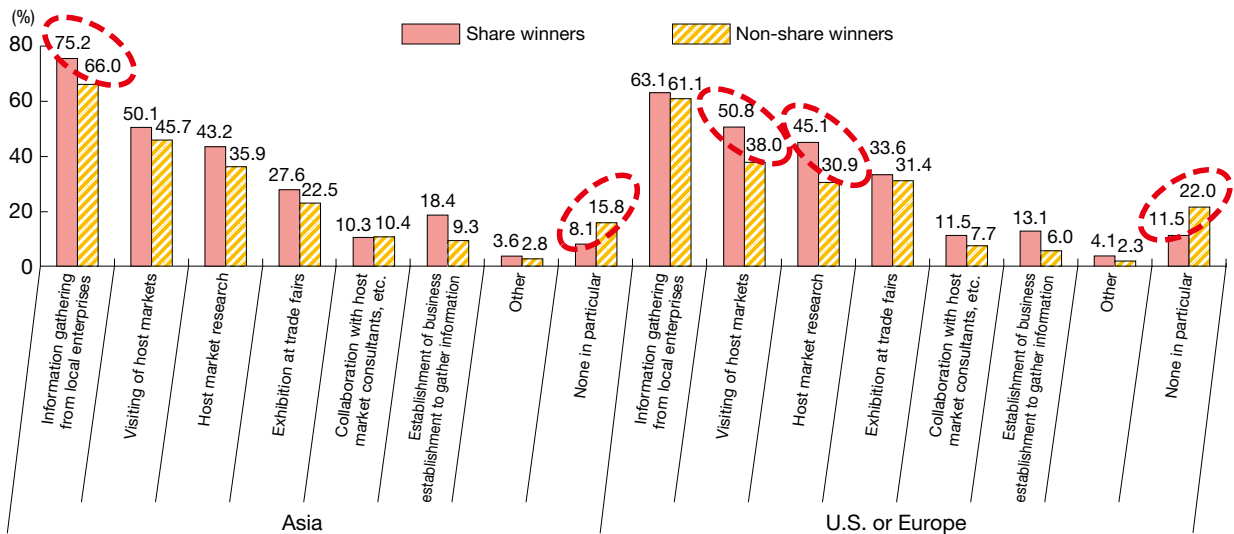
some have succeeded in winning significant market shares overseas (referred to below as “share winners”). Below, therefore, we consider the characteristics that set these market share winners apart from SMEs that responded that they are “vying for market share,” “have not secured market share,” or “don’t know” (referred to collectively below as “non-share winners”). Fig. 3-2-36 shows the steps taken by SMEs to gather information in their host markets when supplying core goods/services abroad. Compared with non-share winners, share winners are generally more likely to engage in information gathering in their host markets. There are particularly noticeable differences between the two groups in their level of engagement in “information gathering from local enterprises” in Asia, and “visiting of host markets” and “host market research” in the U.S. or Europe.

● Characteristics and actions of market share winners

While conditions remain severe for Japan’s SMEs,

**Fig. 3-2-36 Comparison of engagement in information gathering in host markets by share winners and non-share winners**

Share winners are more likely than non-share winners to engage in information gathering activities such as “information gathering from local enterprises,” “visiting of host markets,” and “host market research.”



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

- Notes:
1. Only SMEs that responded regarding their state of acquisition of market share overseas are included in the above.
  2. “Share winners” here consists of SMEs that answered that they “have secured market share.”
  3. “Non-share winners” here consists of SMEs that answered that they “are vying for market share,” “have not secured market share,” or “don’t know” about their market share.
  4. Totals do not necessarily sum to 100 due to multiple responses.

Meanwhile, a comparison of the proportions of share winners and non-share winners that answered “don’t know” regarding the factors emphasized by their principal customers (see Fig. 3-2-33), shown in Fig. 3-2-37, reveals

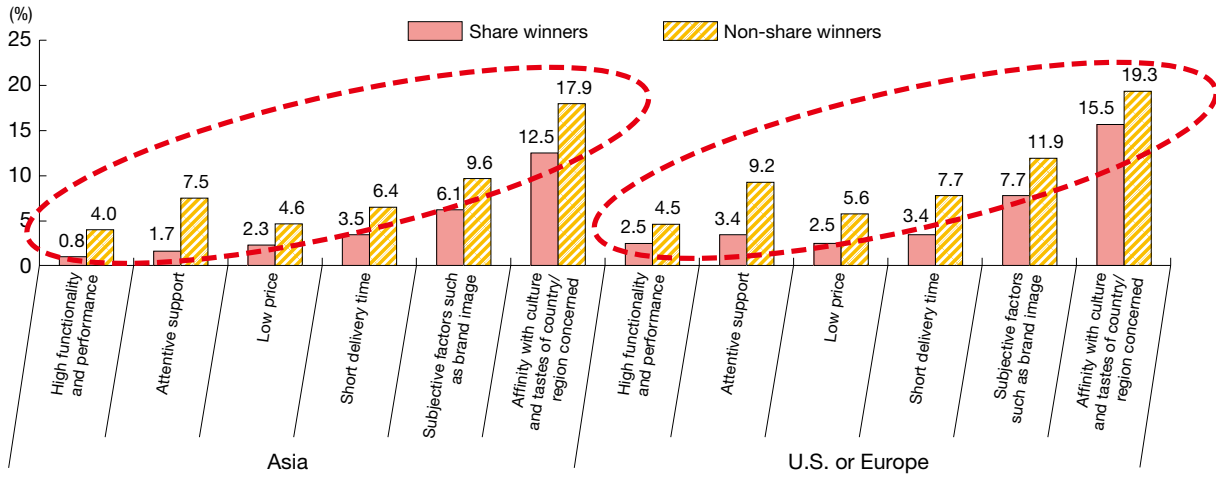
that lower proportions of share winners than non-share winners answer “don’t know,” reflecting a more detailed understanding of the needs of the principal customers in their host markets.

25) According to a survey by the Ministry of Foreign Affairs (MOFA), at least 50 countries and regions had imposed restrictions as of March 31, 2011. Regarding import and export-related measures imposed by selected countries and regions, see MOFA, *Import and Export-related Measures Adopted by Selected Countries and Regions Following the Great East Japan Earthquake (Identified by May 30) (No Particular Order)*: [http://www.mofa.go.jp/mofaj/saigai/pdfs/yusyutunyu\\_soti.pdf](http://www.mofa.go.jp/mofaj/saigai/pdfs/yusyutunyu_soti.pdf)



**Fig. 3-2-37 Comparison of share winners' and non-share winners' understanding of principal customers' preferences**

Lower proportions of share winners than non-share winners answer "don't know" regarding the preferences of the principal customers in their host markets.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

- Notes:
1. Proportions of SMEs answering "don't know" regarding each of the preferences emphasized by the principal customers in their host markets among SMEs that responded regarding their state of acquisition of market share overseas.
  2. "Share winners" here consists of SMEs that answered that they "have secured market share."
  3. "Non-share winners" here consists of SMEs that answered that they "are vying for market share," "have not secured market share," or "don't know" about their market share.

These results indicate that identifying market trends in advance and engaging in globalization accordingly is crucial to acquiring market share in the host market concerned.<sup>26)</sup>

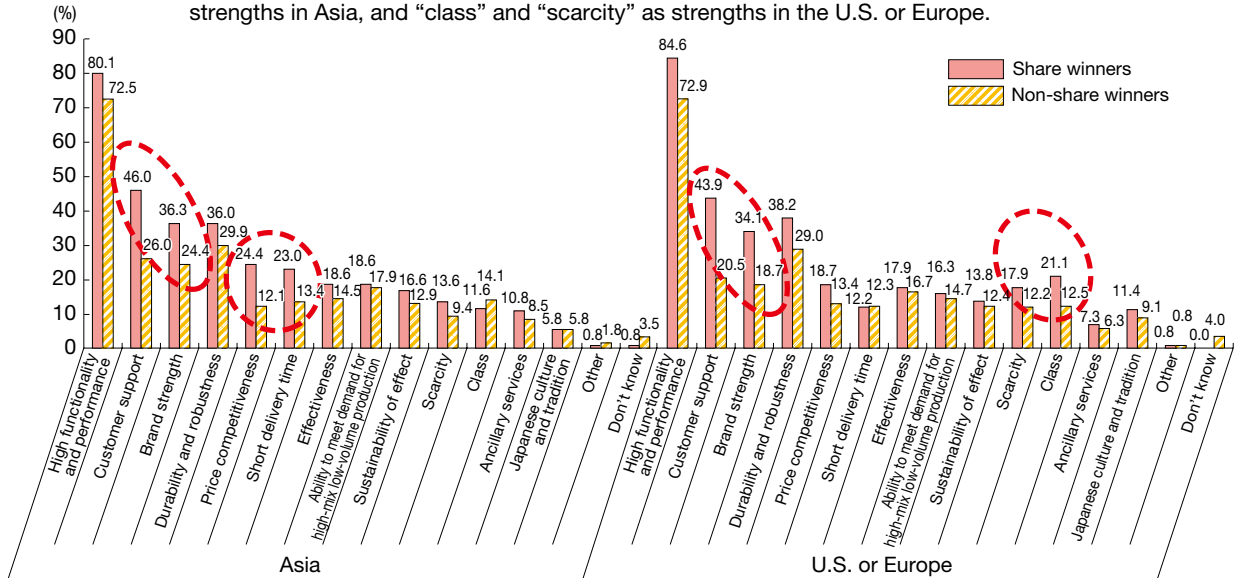
Next, we examine the strengths and weaknesses of core goods/services supplied abroad. Fig. 3-2-38 depicts the strengths of the core goods/services supplied overseas by SMEs. This shows that high proportions of both share winners and non-share winners cite "high functionality and performance" as a strength, and there is little observable difference between the two groups. This coincides with our earlier finding (Fig. 3-2-31) that the

goods/services supplied by Japanese SMEs in overseas markets are superior in quality to the local competition. However, there is a large gap between share winners and non-share winners in both Asia and the U.S. or Europe in the proportion citing "customer support" and "brand strength" as strengths, indicating that these are keys to securing market share overseas. Share winners' strengths also appear to differ according to market, with higher proportions citing "price competitiveness" and "short delivery time" as strengths in Asia, and "class" and "scarcity" as strengths in the U.S. or Europe.

26) The analysis on p. 59 of the 2010 White Paper on *Monodzukuri* demonstrates that it is important in emerging markets that enterprises target a clear customer segment and launch products that meet this segment's specific needs.

**Fig. 3-2-38 Comparison of strengths of share winners and non-share winners**

High proportions of both share winners and non-share winners regard “high functionality and performance” as a strength. However, share winners are more likely than non-share winners to regard “customer support” and “brand strength” as strengths. Share winners’ strengths also appear to differ according to market, with higher proportions citing “price competitiveness” and “short delivery time” as strengths in Asia, and “class” and “scarcity” as strengths in the U.S. or Europe.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

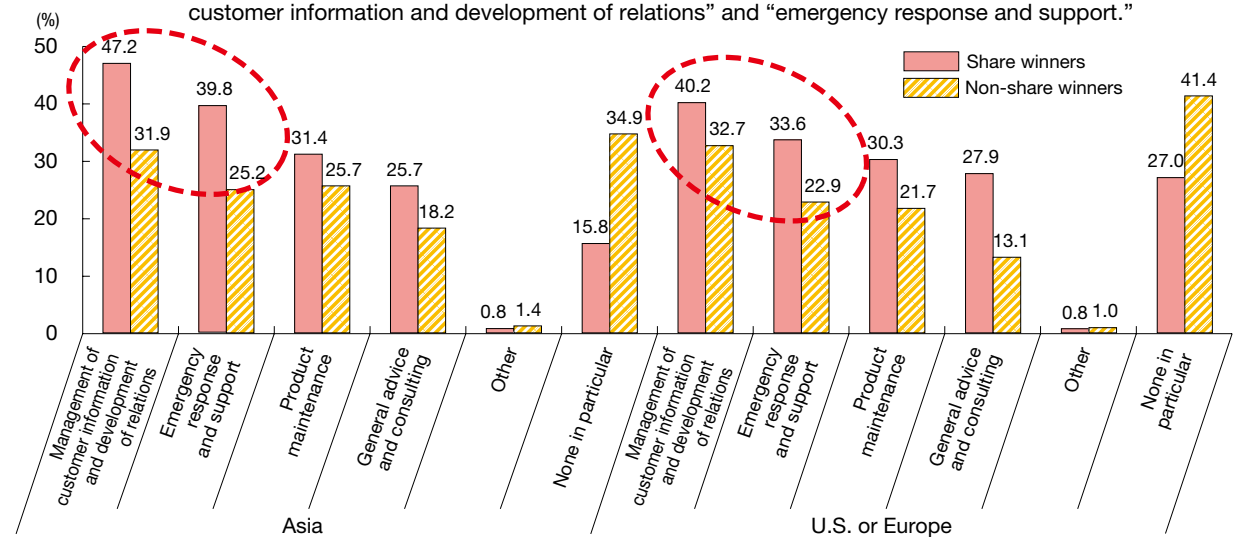
- Notes:
1. Only SMEs that responded regarding their state of acquisition of market share in their host markets are included in the above.
  2. “Share winners” here consists of SMEs that answered that they “have secured market share.”
  3. “Non-share winners” here consists of SMEs that answered that they “are vying for market share,” “have not secured market share,” or “don’t know” about their market share.
  4. Totals do not necessarily sum to 100 due to multiple responses.

Regarding the actions taken by SMEs to raise the value added of their goods/services, shown in Fig. 3-2-39, higher proportions of share winners than non-share winners increase the value added of the goods/services

that they supply by such means as “management of customer information and development of relations” and “emergency response and support.”

**Fig. 3-2-39 Comparison of actions taken by share winners and non-share winners to increase value added of goods/services**

Share winners are more likely than non-share winners to increase value added through “management of customer information and development of relations” and “emergency response and support.”



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

- Notes:
1. Only SMEs that responded regarding their state of acquisition of market share in their host markets are included in the above.
  2. “Share winners” here consists of SMEs that answered that they “have secured market share.”
  3. “Non-share winners” here consists of SMEs that answered that they “are vying for market share,” “have not secured market share,” or “don’t know” about their market share.
  4. Totals do not necessarily sum to 100 due to multiple responses.

These results suggest that it is not just supplying high-quality goods and services that is important to securing market share in host markets; other elements, such as

responding to customers, developing relations with them, and cultivating a high quality brand of product or service are also important.<sup>27)</sup>

**Case 3-2-13**

**A company that developed its own homepage for product sales and developed overseas sales routes**

Metrol Co. Ltd. manufactures and sells precision position switches for CNC<sup>28)</sup> machine tools and industrial machinery in Tachikawa City, Tokyo with 95 employees and capital of ¥40 million.

Metrol President Takuji Matsuhashi wanted to sell Metrol's products, without a lot of costs, to all types of enterprises and industries worldwide, and not depend on any particular enterprise or industry.

Metrol launched an English homepage in 1998, employed a service whereby the company is listed near the top of the search results of related words in domestic and foreign Internet search engines, and set up a system so that foreign companies can purchase Metrol products using a credit card.

As a result, Metrol succeeded in having its products known to many foreign companies, without a lot of costs. The convenient credit card settlement system attracted trial purchases from overseas, and put Metrol on track in direct exports. Metrol also actively participates in overseas trade fairs, and has increased its name recognition by promoting its own products. Today, direct exports account for 60% of the company's sales. Metrol now directly exports its own products to over 60 countries and regions, without any trading company intermediaries.

President Matsuhashi says, "Many foreign companies sell to the world as a matter of course because their domestic markets are not so large. Japanese SMEs should also actively sell their products overseas."



Metrol's English-language homepage

**Case 3-2-14**

**A company that uses sales agencies to provide highly refined service, even overseas**

Orion Machinery Co., Ltd. manufactures and sells dairy farming and industrial equipment in Suzaka City, Nagano Prefecture with 600 employees and capital of ¥100 million.

Orion Machinery has applied the vacuum and refrigeration technologies from its dairy farming equipment to manufacture vacuum pumps, industrial water chillers and compressed air dehumidification dryers, and it also manufactures jet heaters for businesses.

Orion Machinery began exporting its jet heaters from the 1970s, and eagerly built up both a sales and a service network. In particular, to provide after-service in the U.S. for the industrial chillers that are one of Orion Machinery's main products, the company posts service experts who have sufficient expertise and maintains inventories of replacement parts at U.S. agencies. Orion Machinery has also formed an alliance with a major U.S. air conditioner manufacturer to establish a system for quick repairs, maintenance and inspection whereby the service experts give instructions and dispatch staff from the air conditioner repair shop located closest to the customer, and send parts as needed. Orion Machinery is now building up a service network in China through its local subsidiary. Their efforts are highly regarded by customers. Orion Machinery is steadily expanding sales, even though its products are more expensive than those made by other manufacturers.



Orion Machinery's U.S. service network

27) The analysis of "hit products" on pages 96-97 of the 2009 White Paper on Small and Medium Enterprises in Japan found that that it is hard for SMEs to differentiate themselves from other enterprises in the same industry by depending solely on their technological strengths, and it was suggested that it is important that they also differentiate themselves using a combination of other factors as well, including "business model," "brand strength," and "planning and proposal capabilities."

28) CNC is an abbreviation for Computer Numerical Control, whereby machine operations are controlled by computer rather than manually.

**Case 3-2-15**

**A company with a portal site that sells superior SME eco products inside Japan and abroad**

Ecotwaza Co., Ltd. operates a portal site and publishes a magazine which introduces Japan's superior "ecology knowledge" to foreigners living inside and outside Japan and advocates an ecological lifestyle. The company is based in Kunitachi City, Tokyo and has three employees and capital of ¥8.7 million. The portal site sells environmental goods from all over Japan online.

The company's English-language online sales portal "GreenJapan.com" receives about 10,000 page-hits per month, with about half from inside and half from outside Japan. Viewers access the site from many countries including Australia, the U.S., Canada, the U.K., Singapore and Hong Kong. The online sales are mostly to individuals, but foreign buyers sometimes make bulk purchases.

The products include tote bags made using tatami mat material, lead-free cast iron frying pans incorporating recycled iron, and other products which reduce environmental load. The products feature superior technologies and design. The portal site sells goods made by SMEs that are consistent with Ecotwaza's business philosophy of "reducing the load on the global environment by spreading traditional skills from every region of Japan, handwork made with wisdom and devotion, and state-of-the-art Japanese ecology technologies throughout the world."

President Reina Otsuka says, "Many Japanese companies feel a psychological barrier in marketing to foreigners because foreign language is a problem. When a company has difficulties responding in a foreign language, they should just use the services of translators or interpreters. Of course, it is not easy for SMEs to develop overseas. Regardless, even when a customer is overseas, the basic way of conducting business is really no different from that on the domestic Japanese market."



A page on the company's portal site "eco+waza"

**Case 3-2-16**

**A company which uses the portal site "eco+waza" to sell its environmental products overseas**

Sanyo Paper Co., Ltd. manufactures and sells all types of crepe paper and crepe paper goods in Sennan City, Osaka Prefecture with 49 employees and capital of ¥30 million. The company has developed a unique plum charcoal crepe paper made using the huge volume of waste plum seeds from the production of "Nankobai" pickled plums, a local specialty in Wakayama Prefecture. The plum seeds are carbonized and incorporated into the plum charcoal crepe paper which removes odors, controls humidity and absorbs endocrine-disrupting chemicals.

Sanyo Paper mostly sells to domestic companies, and did not have foreign or individual customers in mind. Just after Ecotwaza Co., Ltd. was founded, however, they contacted Sanyo Paper and asked if they could list the plum charcoal crepe paper on their portal site. Then, Sanyo Paper decided to use Ecotwaza's portal site, since it is consistent with their business philosophy, and took an approach to increase overseas sales. There was difficulty in making sales at first, but Ecotwaza then suggested a product introduction focusing on removing odor from shoes, to clarify the target customer segment. This change led to orders from the U.S. The paper is unusual on overseas markets as an environmental product using charcoal, and has clear merits in its odor removal and other functions and in being 100% recycled. The plum charcoal paper is now attracting attention from overseas buyers.

Many SMEs have concerns about foreign language in conducting business outside Japan, but that is no problem for Sanyo Paper. "Ecotwaza takes care of all the foreign language phone calls and e-mails, so we can handle overseas business without feeling any language barrier. We can also rest at ease because Ecotwaza properly follows up on all the export and transaction procedures."



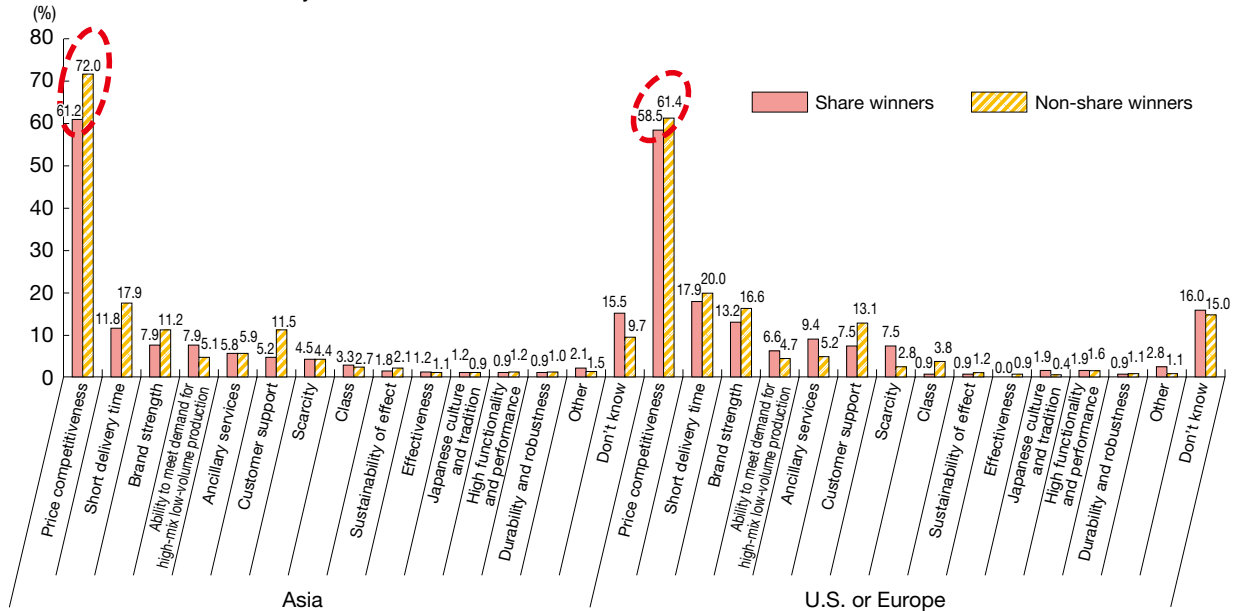
"Eco Kukku" shoe deodorizer using the plum charcoal crepe paper

We continue with an examination of the weaknesses of core goods/services, shown in Fig. 3-2-40. “Price competitiveness” is regarded as a weakness by the highest

proportion of both share winners and non-share winners. Compared with non-share winners, however, proportionately fewer share winners feel this way.

**Fig. 3-2-40 Comparison of weaknesses of share winners and non-share winners**

“Price competitiveness” is regarded as a weakness by the highest proportion of both share winners and non-share winners. Compared with non-share winners, however, proportionately fewer share winners feel this way.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

- Notes:
1. Only SMEs that responded regarding their state of acquisition of market share overseas are included in the above.
  2. “Share winners” here consists of SMEs that answered that they “have secured market share.”
  3. “Non-share winners” here consists of SMEs that answered that they “are vying for market share,” “have not secured market share,” or “don’t know” about their market share.
  4. Totals do not necessarily sum to 100 due to multiple responses.

These results suggest that share winners make up for their weakness in “price competitiveness” by turning to other strengths to secure market share. Moreover, the lower proportion of share winners that see “price competitiveness” as a weakness in comparison with non-share winners indicates that they may be pricing their goods or services according to the host market so as to secure market share.

To summarize the above findings, many of Japan’s SMEs supply the same goods/services abroad as in Japan, and these goods/services tend to be superior in quality and higher priced than the local competition. In order to globalize successfully, meanwhile, the evidence suggests that it is important that enterprises carefully research their markets beforehand in order to ensure that they properly understand the preferences of the principal customers in their host markets. Successful globalization also appears

to depend on providing appropriate customer support and developing a brand for one’s products, rather than relying solely on the quality of one’s offerings. As Figs. 3-2-22 and 3-2-27 illustrated, SMEs from an increasingly diverse range of industries are globalizing by supplying goods/services to consumers in overseas markets, as evidenced by the rising number of exporting enterprises in life-related fields of manufacturing (such as the textile and food product industries) and FDI enterprises in eating and drinking places, accommodations, and the retail trade. All this points to the increasing future importance of supplying goods/services suited to host markets. Due to the effects of the earthquake, Japan’s SMEs continue to face severe conditions. SMEs therefore need to steadily take advantage of business opportunities overseas by clearly identifying their own strengths and tastes in overseas markets.

### Column 3-2-1 Support for SMEs expanding overseas

METI established the SME Overseas Operations Support Council, which is chaired by the Minister, in October 2010 to support the overseas development of Japanese SMEs. METI has arranged a system for detailed assistance to SMEs advancing overseas centered on the Regional Bureaus of Economy, Trade and Industry in collaboration with the Financial Services Agency, the Ministry of Finance, the Ministry of Agriculture, Forestry and Fisheries, financial institutions and other concerned organs.

Each Regional Bureau of Economy, Trade and Industry has established a desk for unified overseas development support. By sharing information with the Japan External Trade Organization (JETRO) Trade Information Centers and branches of the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ), the system offers the same assistance through consultations at the Regional Bureaus, JETRO and SMRJ.

JETRO and SMRJ serve as the core of the assistance system. They provide support not only to enterprises that already conduct business overseas but also to SMEs aiming to develop abroad from now on. These two organizations maintain close coordination to provide consistent support from the overseas advancement preparation stage through to the conclusion of contracts. Specifically, SMRJ gives assistance in preparations to advance overseas from the perspective of management support, including assistance in drafting overseas development strategies and preparing foreign language materials for product introduction. SMRJ also helps companies exhibit at domestic trade fairs which draw large numbers of foreign buyers. Meanwhile JETRO uses its wide-ranging domestic and foreign networks to provide opportunities for business talks by helping companies exhibit at overseas trade fairs and inviting foreign buyers to Japan, providing various information on foreign markets, and arranging matching with foreign companies.

Financial institutions are also providing more assistance. Japan Finance Corporation is expanding its overseas development loan system to support the overseas development of SMEs. Japanese financial institutions are expanding funding support in cooperation with Japan Bank for International Cooperation (JBIC) from the perspective of facilitating local financing to the foreign subsidiaries of Japanese SMEs under a system whereby JBIC provides the local financial institutions with financing and Japanese financial institutions provide the loan guarantees.

As additional support, the government is considering dispatching employees to the “Japan Desks” established at foreign financial institutions to assist Japan-related firms. Shoko Chukin Bank, Ltd. has also signed a memorandum with JETRO to establish overseas development consultation desks at its branches inside and outside Japan.

The SME Overseas Operations Support Council compiled an “SME Overseas Operations Support Charter” to further advance the overseas development of Japanese SMEs, and will actively advanced SME overseas operations support in conjunction with other concerned ministries, agencies and organs.

The newly emerging economies are viewed as attractive markets where, along with the wealthy and middle-class segments, the low-income BOP<sup>29)</sup> segment is also expected to grow. METI established the Japan Inclusive Business Support Center in October 2010 to provide comprehensive support for BOP business, including SMEs, and is otherwise working to promote BOP business by Japanese enterprises together with related organs.<sup>30)</sup>

29) The low-income segment with a per capita annual income of \$3,000 or less is referred to as the BOP (Base of the Economic Pyramid) segment. For information about the BOP business by SMEs, see page 161 of the *2010 White Paper on Small and Medium Enterprises in Japan*.

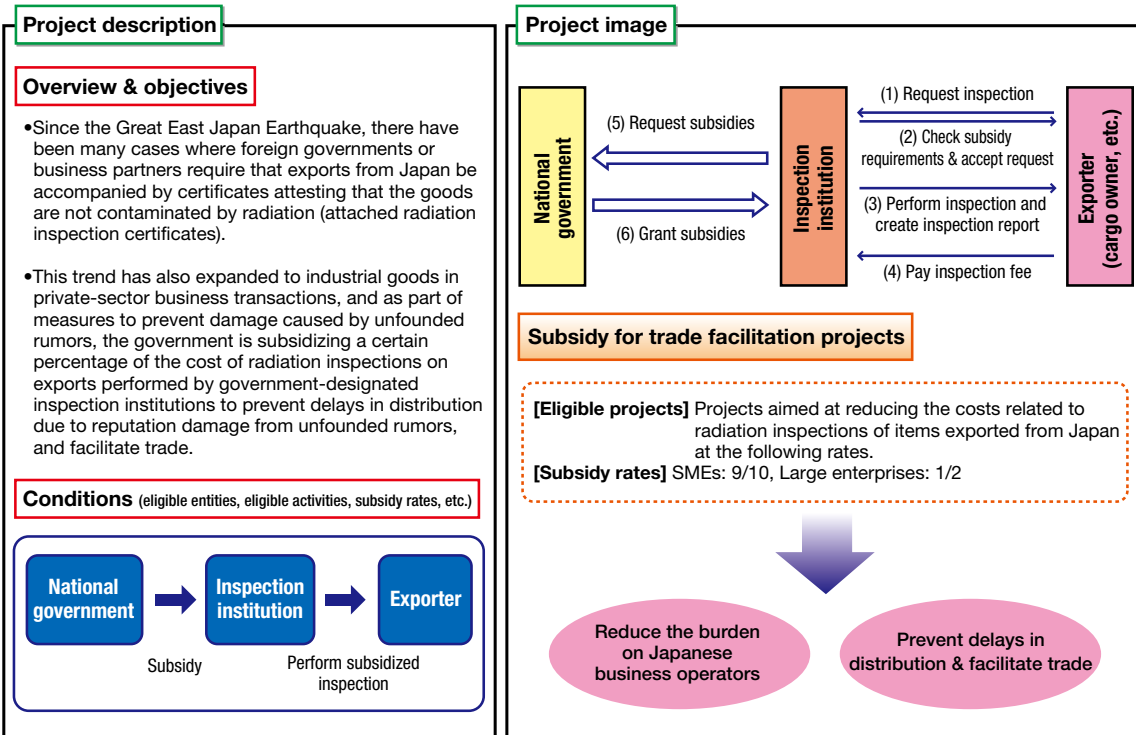
30) For details, see the Japan Inclusive Business Support Center homepage (<https://www.bop.go.jp>).

### Column 3-2-2 Radiation inspection cost subsidies

As seen in Chapter 2 of Part I, due to the nuclear power plant accident, some Japanese SMEs are being asked to provide certificates that their products are not contaminated by radiation when conducting exports. The items which need inspection are not limited to agricultural products, but include industrial goods as well, and SMEs say the expense burden per test is high.

Under these circumstances, the first supplementary budget for fiscal 2011 provides fixed-rate subsidies (9/10 for SMEs and 1/2 for large enterprises) to assist with the cost of radiation inspections on exports performed by government-designated inspection institutions to prevent delays in distribution from damages caused by unfounded rumors and facilitate trade.

**Column Fig. 3-2-2 Radiation inspection cost subsidies**



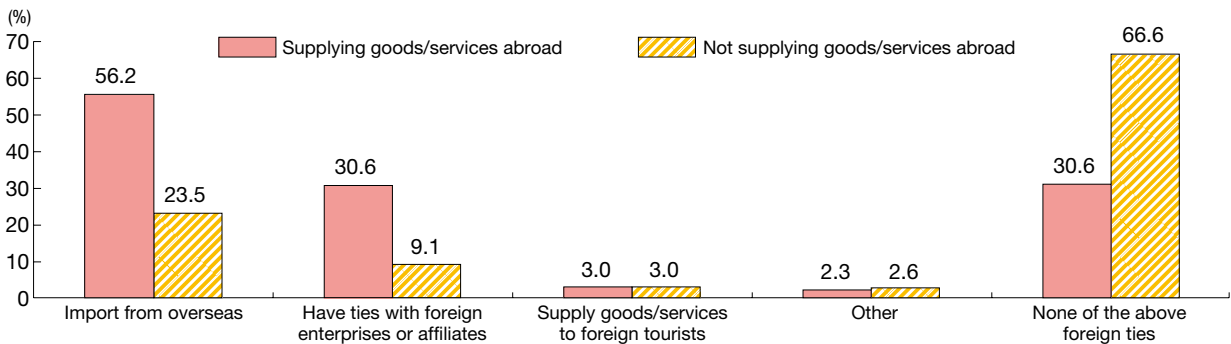
### [3] Taking up of business opportunities in Japan

Subsection 2 consisted of an analysis of the current state of globalization by Japanese SMEs and the factors associated with those that have globalized successfully. However, it is also possible for SMEs to take advantage of international business opportunities by using the various business resources entering Japan from abroad to assist their own growth without leaving Japan's shores.

Fig. 3-2-41 shows the proportions of Japanese SMEs with various forms of international ties within Japan according to whether they also engage in the supply of goods/services abroad. Although a high proportion of enterprises that supply goods/services abroad report that they "import from overseas" and "have ties with foreign enterprises or affiliates," 23.5% of enterprises that do not supply goods/services abroad also "import from overseas" and 9.1% "have ties with foreign enterprises or affiliates."

**Fig. 3-2-41 Foreign business ties of SMEs in Japan**

Although a high proportion of enterprises that supply goods/services abroad report that they "import from overseas" and "have ties with foreign enterprises or affiliates," 23.5% of enterprises that do not supply goods/services abroad also "import from overseas" and 9.1% "have ties with foreign enterprises or affiliates."



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

Notes: 1. Only SMEs are included in the above.

2. "Have ties with foreign enterprises or affiliates" here consists of enterprises that answered "yes" to any of the following: "do business in Japan with foreign affiliates," "engage in joint development with foreign enterprises or affiliates," "target of an M&A by a foreign enterprise or affiliate," "received investment from foreign enterprise or affiliate."

3. Totals do not necessarily sum to 100 due to multiple responses.

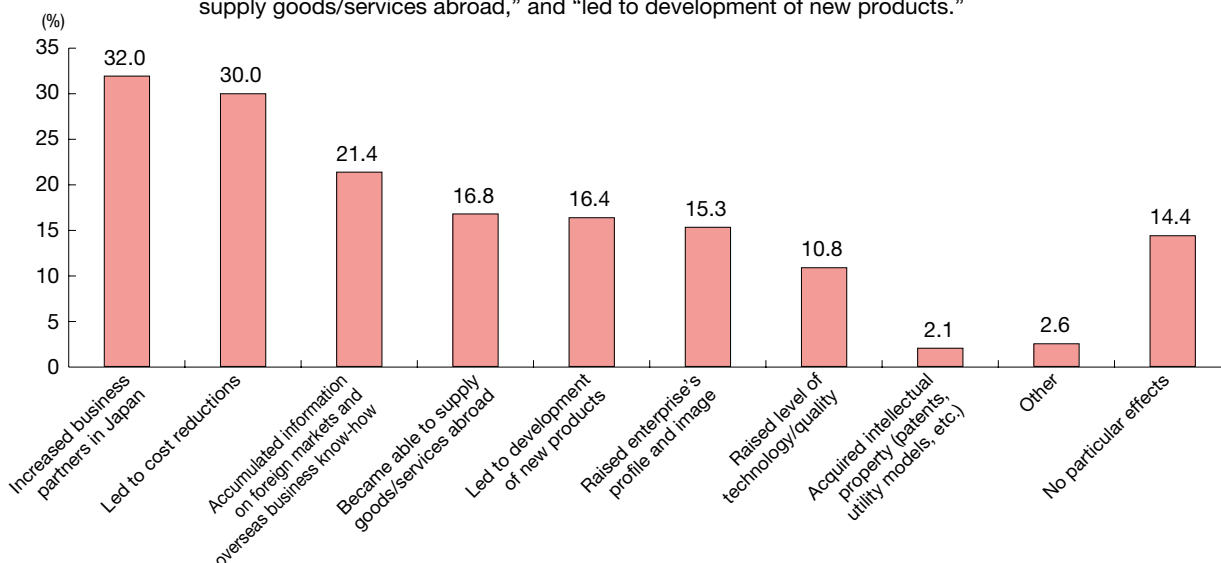
Fig. 3-2-42 shows the effects on SMES of the various forms of ties depicted in Fig. 3-2-41. We may observe from this that SMEs enjoy a variety of benefits from such ties. These included not only their effects on sales and expenses, such as "increased business partners in Japan"

and "led to cost reductions," but also a variety of other effects, including "accumulated information on foreign markets and overseas business know-how," "became able to supply goods/services abroad," and "led to development of new products."



**Fig. 3-2-42 Effects on SMEs of having foreign ties**

Having foreign ties within Japan not only affects sales and costs in terms of “increased business partners in Japan” and “led to cost reductions,” but also provides other benefits, including “accumulated information on foreign markets and overseas business know-how,” “became able to supply goods/services abroad,” and “led to development of new products.”



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

Notes: 1. Only SMEs that have some form of foreign ties within Japan are included in the above.  
2. Totals do not necessarily sum to 100 due to multiple responses.

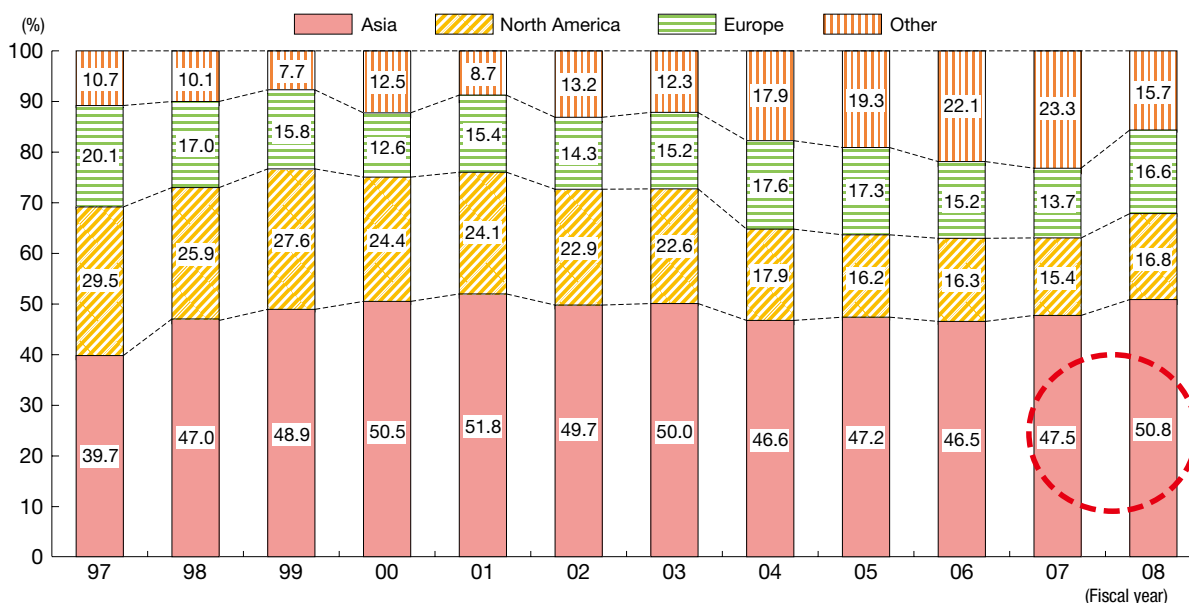
These results demonstrate that having foreign ties within Japan may contribute to SMEs' growth. In order to determine how SMEs are making use of the various business resources entering Japan from abroad, we examine below trends in imports, foreign visitors to Japan, and foreign human resources, and their effects on Japanese SMEs.

● **Trends in imports**

We begin with trends in imports by SMEs. The breakdown of the value of SME imports by region shown in Fig. 3-2-43 reveals that Asia has been the biggest source of imports since fiscal 1997, and that imports from this region are presently on the rise.

**Fig. 3-2-43 Breakdown of total value of SME imports by region**

Compared with fiscal 1997, the proportion of imports from North America and Europe has declined, and that from Asia has increased.



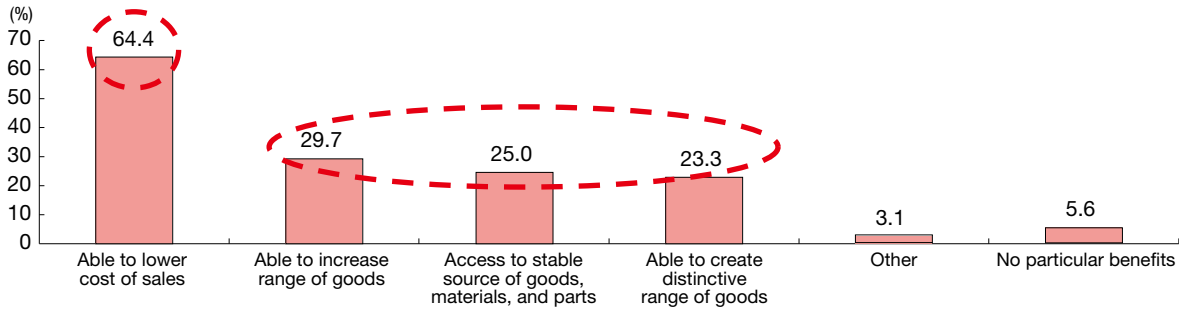
Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.

Looking at the benefits enjoyed as a result of importing, over 60% of SMEs cited being “able to lower cost of sales,” while “able to increase range of goods,” “access to stable source of goods, materials, and parts,” and “able

to create distinctive range of goods” were also cited by 20% to 30% of SMEs. However, only around 5% said that importing had “no particular benefits” (Fig. 3-2-44).

**Fig. 3-2-44 Benefits enjoyed as a result of importing**

In addition to over 60% of enterprises answering “able to lower cost of sales,” 20%-30% also cited “able to increase range of goods,” “access to stable supply of goods, materials, and parts,” and “able to create distinctive range of goods.” Only around 5% said that importing had “no particular benefits.”



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

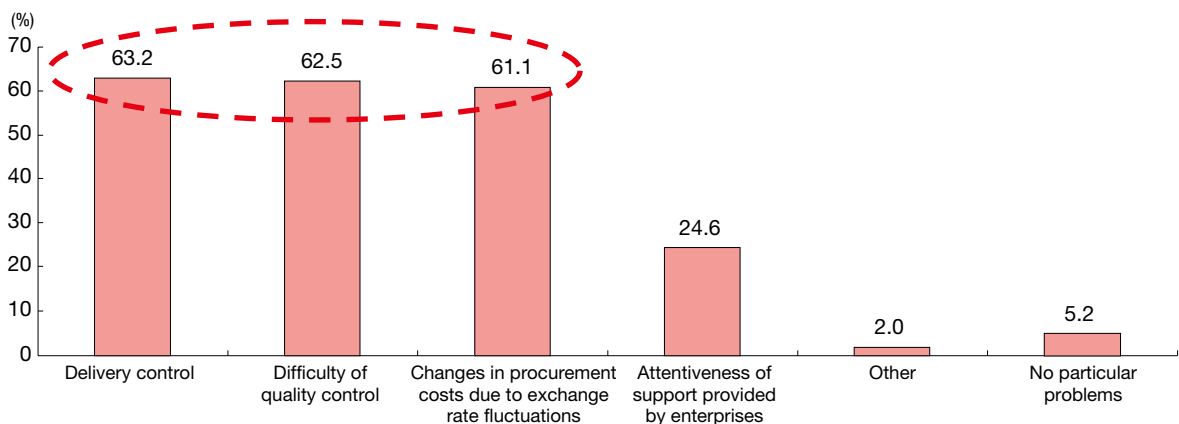
- Notes: 1. Only SMEs whose ratio of imports to cost of sales exceeds 0% are included in the above.  
2. Totals do not necessarily sum to 100 due to multiple responses.

So what sorts of problems are encountered by SMEs that engage in importing? Fig. 3-2-45 shows that they experience a variety of problems, with over 60% reporting “delivery control” “difficulty of quality control,” and

“changes in procurement costs due to exchange rate fluctuations” to be problems, while only around 5% said that they experience “no particular problems.”

**Fig. 3-2-45 Problems encountered by SMEs when importing**

Around 60% of enterprises report a variety of problems, including “delivery control,” “difficulty of quality control,” and “changes in procurement costs due to exchange rate fluctuations,” while only around 5% report that they experience “no particular problems.”



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

- Notes: 1. Only SMEs whose ratio of imports to cost of sales exceeds 0% are included in the above.  
2. Totals do not necessarily sum to 100 due to multiple responses.

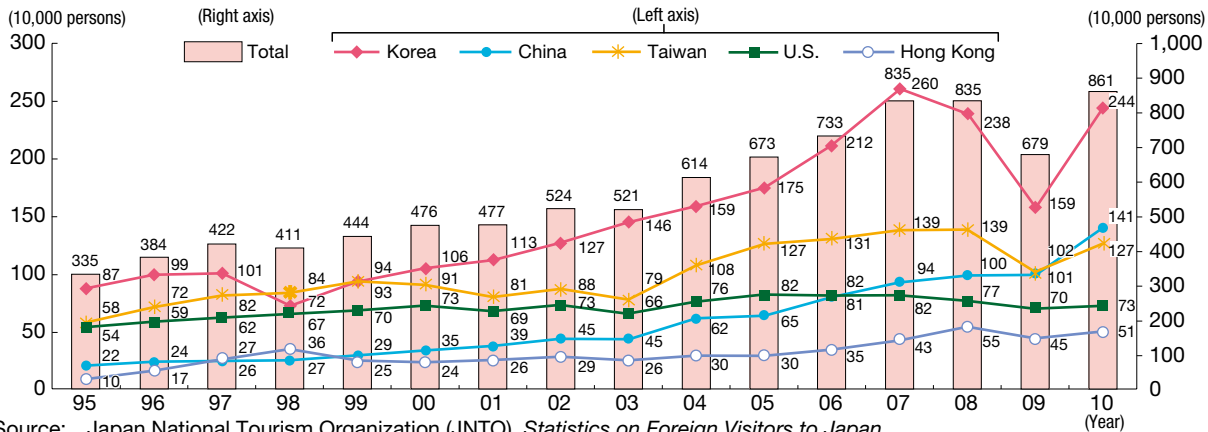
● Trends in foreign visitors to Japan

Next, we look at trends in foreign visitors to Japan. Fig. 3-2-46 shows that in 2010, the year before the earthquake, the number of foreign visitors grew from the previous year to hit a record high.<sup>31)</sup>

A breakdown of the top five nationalities of foreign visitors in 2010 reveals four to be Asian (the U.S. being the exception), with particularly marked growth in the number of visitors from China.

**Fig. 3-2-46 Numbers of foreign visitors to Japan**

Following a decline in 2009, the number of foreign visitors rose in 2010 to hit a record high, with particularly marked growth in the number of visitors from China.



Source: Japan National Tourism Organization (JNTO), *Statistics on Foreign Visitors to Japan*.

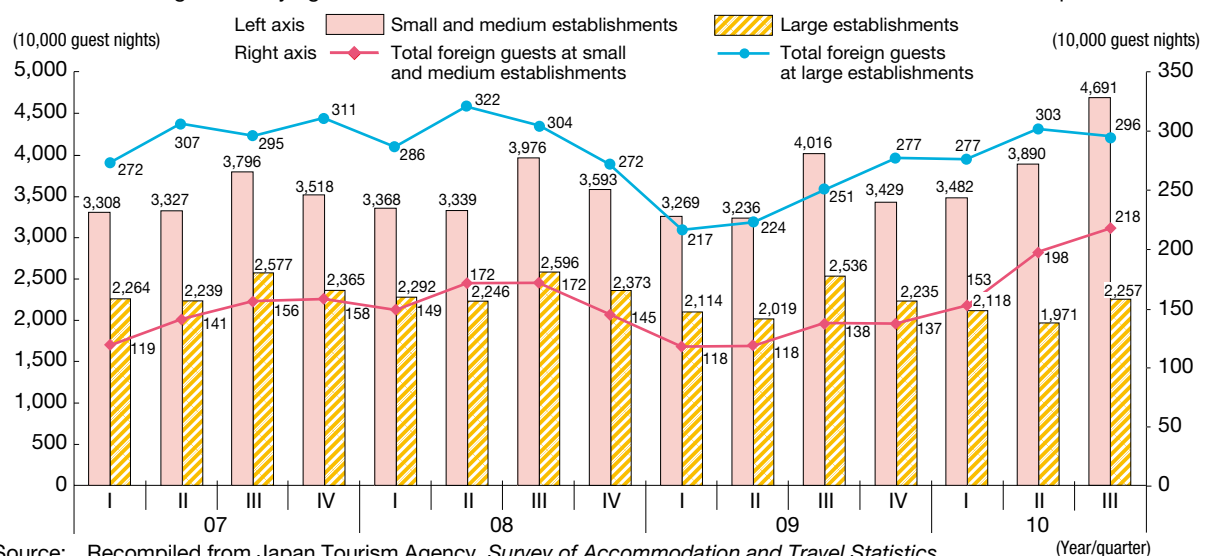
- Notes:
1. "Foreign visitors" consists of legal foreign entrants to Japan less foreign residents (according to aggregate figures on nationality published by MOJ) plus foreign transit passengers and other foreign travellers. The resulting number indicates the number of entrants holding a foreign passport issued by governments concerned.
  2. Figures for Hong Kong include Hong Kong residents who are holders of British citizenship.

We look next at the relationship between foreign visitors and accommodation establishments. Fig. 3-2-47 shows the total number of guests broken down by size of establishment. While the proportion of the total number of guests staying at small and medium establishments

accounted for by foreign guests is small compared with large establishments, the total number of foreign guests staying at small and medium establishments can be seen to have been on the increase until the earthquake.

**Fig. 3-2-47 Breakdown of total number of guests by size of establishment**

While the proportion of the total number of guests staying at small and medium establishments accounted for by foreign guests is small compared with large establishments, the total number of foreign guests staying at small and medium establishments was on the increase until the earthquake.



Source: Recompiled from Japan Tourism Agency, *Survey of Accommodation and Travel Statistics*.

- Notes:
1. Small and medium establishments are establishments with 10-99 workers, and large establishments are establishments with 100 or more workers.
  2. "Workers" here includes all persons employed at the establishment concerned (including temporary staff, dispatched workers, and workers on loan from other employers, etc.).
  3. Figures are based on aggregates of actual numbers, and so differ from estimates published by the Japan Tourism Agency.

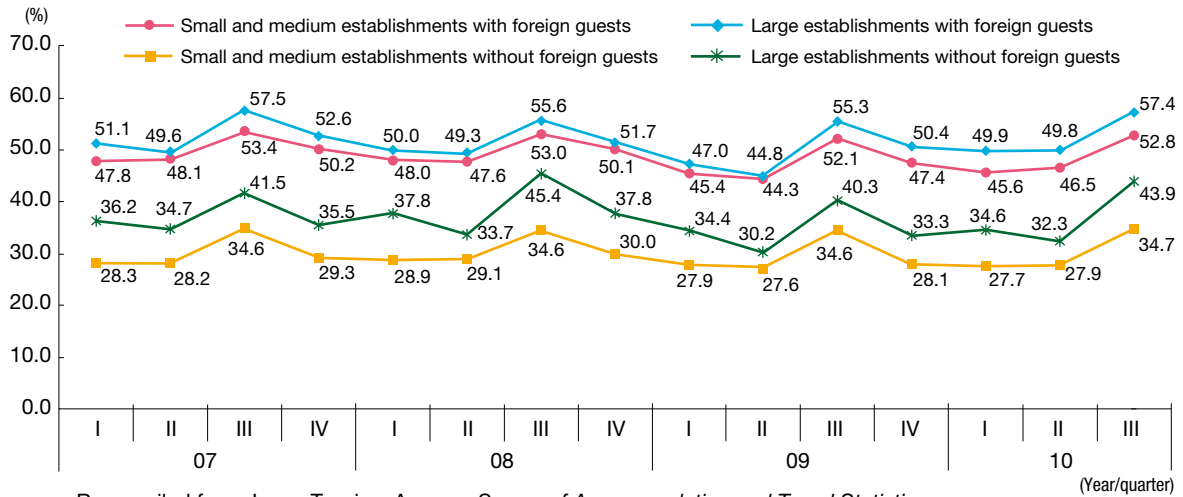
31) The effects of the Great East Japan Earthquake caused the number of foreign visitors to Japan to slump sharply in March 2011. See Fig. 1-2-19 above.

The comparison of capacity utilization rates at establishments that accommodate foreign guests and those that do not<sup>32)</sup> shown in Fig. 3-2-48, meanwhile,

reveals that, regardless of size of establishment, those that accommodate foreign guests have higher capacity utilization rates than those that do not.

**Fig. 3-2-48 Comparison of capacity utilization rates according to accommodation of foreign guests**

Establishments that accommodate foreign guests have higher capacity utilization rates than those that do not.



Source: Recompiled from Japan Tourism Agency, *Survey of Accommodation and Travel Statistics*.

- Notes:
1. Small and medium establishments are establishments with 10-99 workers, and large establishments are establishments with 100 or more workers.
  2. "Workers" here includes all persons employed at the establishment concerned (including temporary staff, dispatched workers, and workers on loan from other employers, etc.).
  3. Capacity utilization rate = total number of guests / total capacity (capacity of facility × length of period) × 100

These results indicate that accommodation establishments of all sizes may be able to raise their

capacity utilization rates by accommodating foreign guests.

32) Capacity utilization rate = total number of guests during period / total capacity (guest capacity × length of period) × 100

**Case  
3-2-17**

**A family inn that revived its business by attracting foreign tourists**

The traditional Japanese inn Ryokan Sawanoya located in Taito City, Tokyo has five employees. The inn was founded in 1949 with eight guest rooms by the mother-in-law of the current proprietor Isao Sawa.

From the time it opened, a growing number of students on school trips and other customers made use of the inn. The number of guest rooms was increased to 16 in 1961 and to 24 in 1968, as business steadily expanded.

With the emergence of business hotels with unit bathrooms and increased diversity in school trips, however, the number of customers began to decline from around 1970 and business conditions worsened. Despite various approaches, including reducing the number of guest rooms, operations fell into the red in 1981 and in 1982 the inn had no customers at all for three days in a row. The future of the business became uncertain.

Proprietor Sawa consulted with the proprietor of another inn, who suggested that Ryokan Sawanoya should target foreigners, since they were having no luck attracting Japanese clients. He was skeptical at first, doubting if a Japanese style inn so small that it wasn't being patronized by Japanese would be acceptable to foreign tourists, but he visited that another inn and found it was filled with foreign guests even though it had basically the same scale and facilities as his own. He then decided to go ahead and market to foreigners.

Ryokan Sawanoya staff have experienced various difficulties from the cultural differences between Japanese and foreigners since they began serving foreigners in 1982. The inn has not made any costly changes to accommodate foreigners. They just deal with issues as they emerge, one by one, and quietly share Japanese culture, for example, by leaving folded paper cranes on the pillows after room cleaning.

As a result of these efforts, a growing number of foreign tourists have come to patronize Ryokan Sawanoya, mostly wealthy travelers. The inn achieved an occupancy rate of over 90% in the third year after it began marketing to foreigners. The inn's 12 guest rooms have been filled ever since that time, but Ryokan Sawanoya wants to maintain personal service, and has no plans for expansion.

Proprietor Sawa says, "For foreign tourists, lodging is a means not an end. Foreigners choose their lodgings based on the reasons why they are traveling, and they do not necessarily stay at luxury hotels just because they are wealthy. If you have a mountain view, make that a selling point and if you have a view of snow then sell that. The important thing is just to present what you have in an unaffected manner."



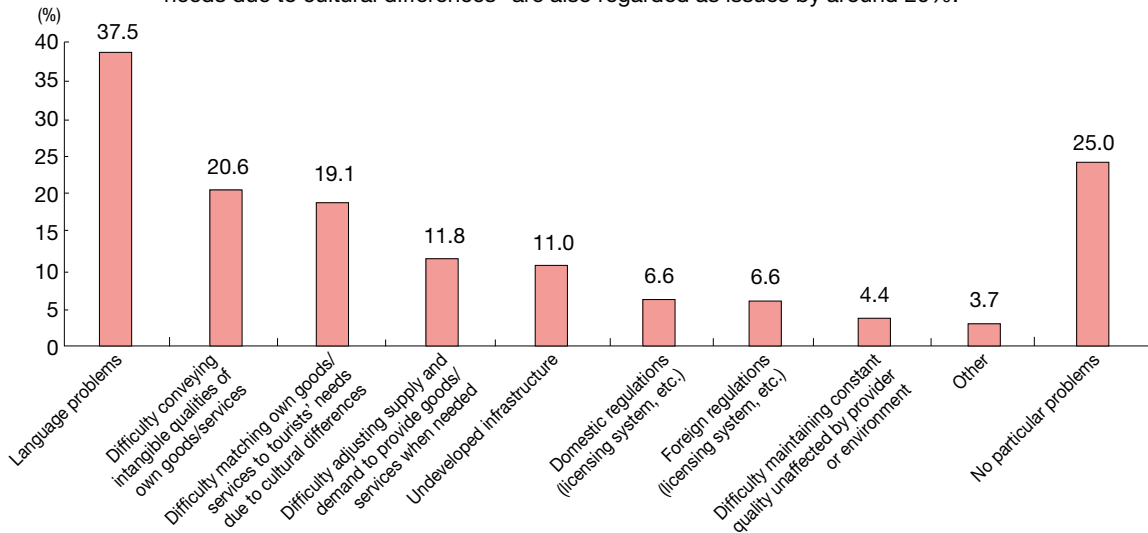
The proprietor and his family saying goodbye to departing foreign tourists

What then are the problems that are perceived by SMEs when they provide own goods and services to foreign tourists? From Fig. 3-2-49, it can be seen that while the commonest problem perceived by SMEs when they provide goods and services to foreign tourists consists of

"language problems," the following are also each raised as issues by around 20% of SMEs: "difficulty conveying intangible qualities of own goods/services" and "difficulty matching own goods/services to tourists' needs due to cultural differences."

**Fig. 3-2-49 Problems perceived when providing own goods and services to foreign tourists**

In addition to the “language problems” reported by around 40% of respondents, “difficulty conveying intangible qualities of own goods/services” and “difficulty matching own goods/services to tourists’ needs due to cultural differences” are also regarded as issues by around 20%.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

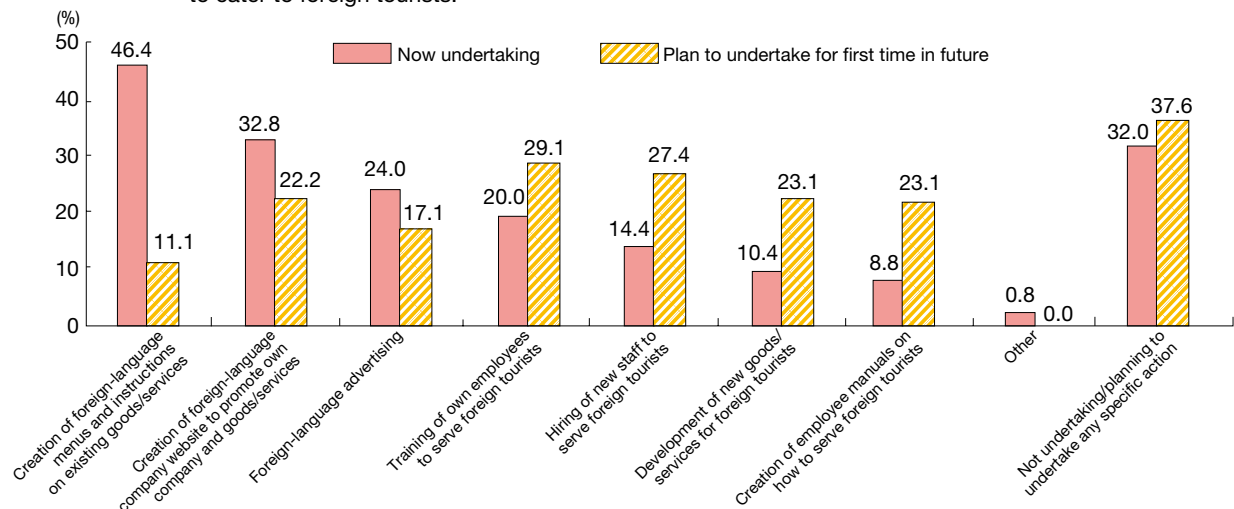
- Notes: 1. Only SMEs that are supplying goods/services to foreign tourists are included in the above.  
 2. Totals do not necessarily sum to 100 due to multiple responses.

Fig. 3-2-50, meanwhile, shows the types of action taken by SMEs to take advantage of business opportunities created by foreign tourists visiting Japan. While high proportions are currently taking steps that are comparatively easy to implement, such as “creation of foreign-language menus on existing goods/services” and “creation of foreign-language company website to promote own company and

goods/services,” high proportions also intend to engage in the future in “training of own employees to serve foreign tourists,” “hiring of new staff to serve foreign tourists,” and “creation of employee manuals on how to serve foreign tourists,” as well as “development of new goods/services for foreign tourists.”

**Fig. 3-2-50 Action to take advantage of business opportunities created by foreign tourists visiting Japan**

A common type of action now being taken is the provision of menus, instructions, and websites in foreign languages. In the future, on the hand, many intend to engage in training and hiring of employees to cater to foreign tourists.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

- Notes: 1. Only SMEs that are supplying goods/services to foreign tourists are included in the above.  
 2. “Plan to undertake for first time in future” indicates the proportion of enterprises that are not presently undertaking the action indicated but plan to do so in the future.  
 3. Totals do not necessarily sum to 100 due to multiple responses.

These results suggest that it is important in the future that SMEs hire human resources capable of meeting the demands of globalization in order to take advantage of the business opportunities created by the growth in foreign tourists visiting Japan.

**Trends in use of foreign human resources**

We look next at the situation regarding SMEs' use of foreign human resources. Fig. 3-2-51 shows the breakdown

of the proportions of SMEs with human resources capable of handling the globalization of their operations. This reveals that while over 70% of SMEs that do not supply goods/services abroad do not have such human resources, around 30% of enterprises that supply goods/services abroad and even at least 10% of enterprises that do not supply goods/services abroad are hiring foreign human resources.

**Fig. 3-2-51 Proportions of SMEs with human resources capable of handling globalization of own business**

Even among enterprises that do not supply goods/services abroad, at least 10% hire foreign nationals.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

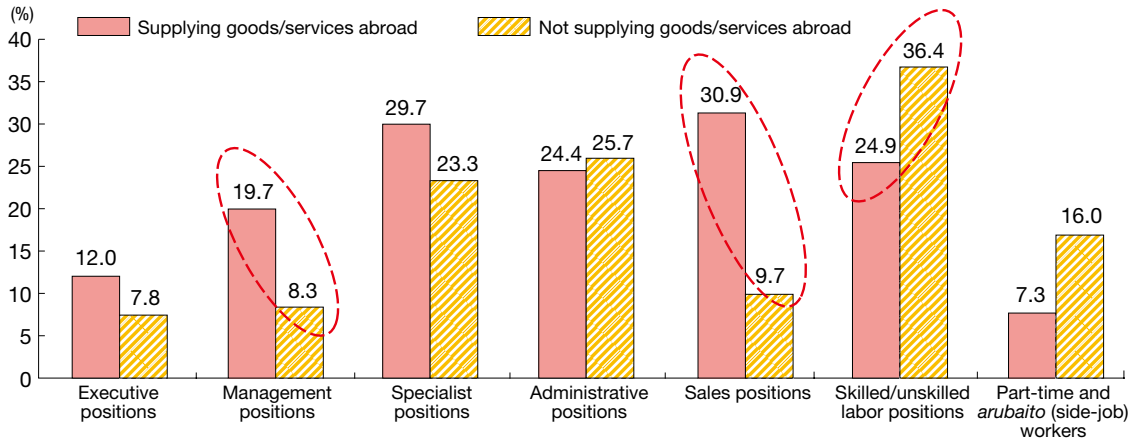
- Notes: 1. Only SMEs are included in the above.
- 2. Totals do not necessarily sum to 100 due to multiple responses.

Looking at the positions in which they are employed, foreign personnel are most commonly employed in sales positions at enterprises that supply goods/services abroad, and in skilled and unskilled labor positions at enterprises that do not supply goods/services abroad. Moreover, a

higher proportion of enterprises that do supply goods/services abroad than those that do not employ foreign nationals in management and specialist positions, evidencing the increasing use of highly skilled human resources from abroad (Fig. 3-2-52).

**Fig. 3-2-52 Positions of employment of foreign human resources**

Foreign human resources are most commonly employed in sales positions at enterprises that supply goods/services abroad, and in skilled and unskilled labor positions at enterprises that do not supply goods/services abroad.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

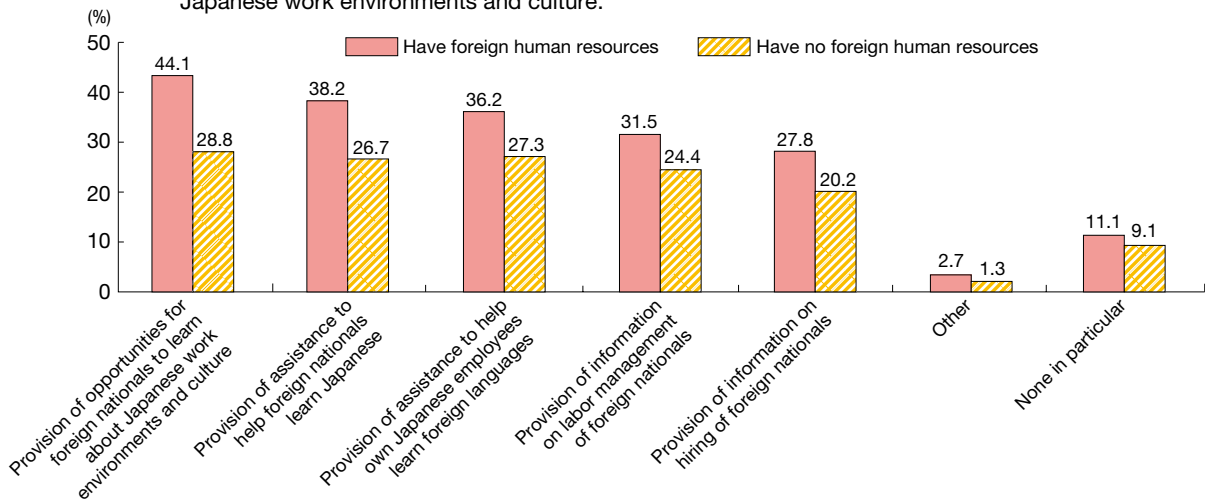
Notes: 1. Only SMEs that have foreign human resources are included in the above.  
2. Totals do not necessarily sum to 100 due to multiple responses.

Fig. 3-2-53 shows what SMEs consider necessary in order to make use of foreign human resources. From this it can be seen that regardless of whether they currently have any foreign human resources, high proportions of SMEs see a need for the “provision of opportunities for foreign

nationals to learn about Japanese work environments and culture.” Enterprises thus appear to consider it important to help foreign nationals from different cultures to get to know about Japan.

**Fig. 3-2-53 Action considered necessary by SMEs in order to make use of foreign human resources**

The most commonly perceived need among both enterprises that currently employ foreign human resources and those that do not is “provision of opportunities for foreign nationals to learn about Japanese work environments and culture.”



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

Notes: 1. Only SMEs are included in the above.  
2. Totals do not necessarily sum to 100 due to multiple responses.

● **Trends regarding foreign affiliates**

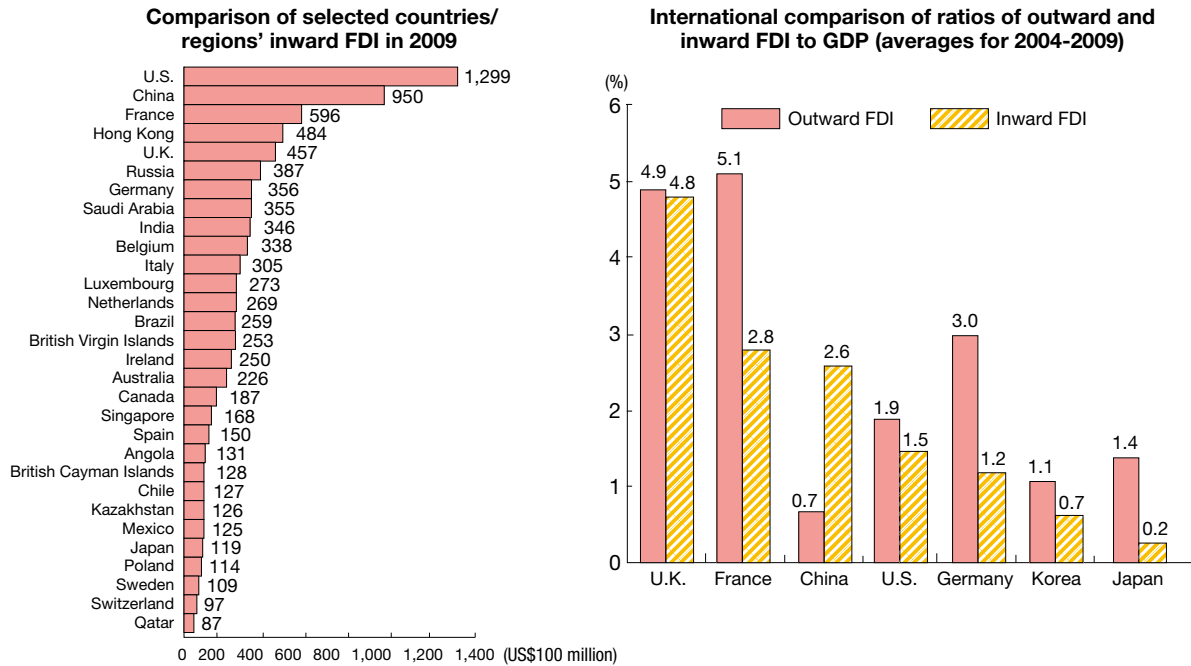
We consider lastly trends regarding foreign affiliates in Japan. Looking firstly at the international comparison of inward FDI shown in Fig. 3-2-54, we find that Japan was the 26th largest recipient of FDI in 2009, when it received

US\$11.9 billion in inward FDI. As can also be seen, Japan’s inward FDI relative to GDP is low in comparison with other countries, and low also compared with outward FDI.



**Fig. 3-2-54 International comparison of inward FDI**

Japan was the world's 26th largest recipient of FDI in 2009, when it received US\$11.9 billion in inward FDI. Japan's inward FDI relative to GDP is low in comparison with other countries, and low also compared with outward FDI.



Source: Compiled by SME Agency from United Nations Conference on Trade and Development (UNCTAD), *UNCTAD Stat*.

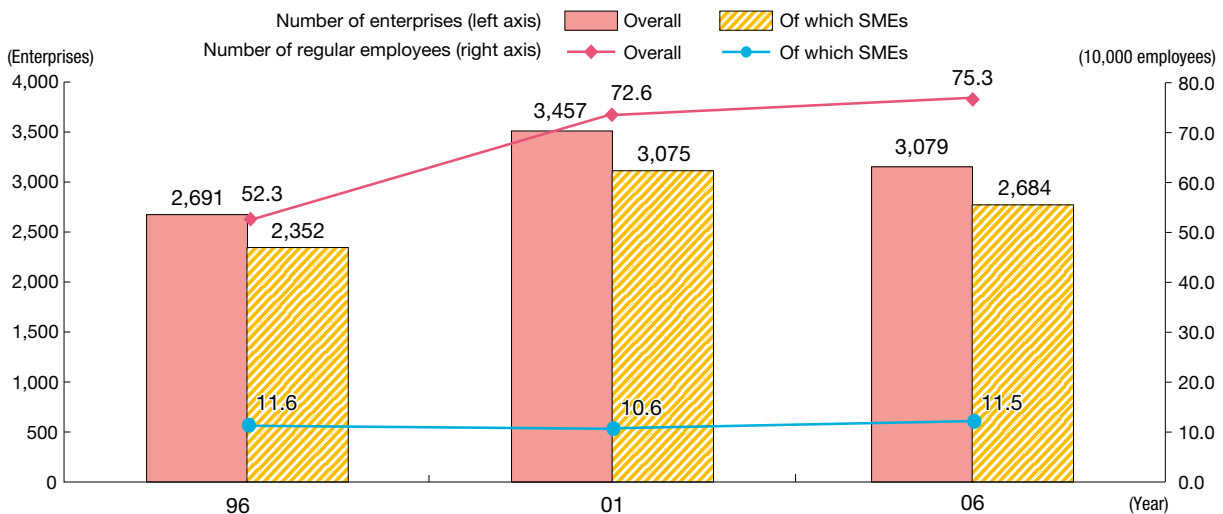
Note: International comparison of ratios of outward and inward FDI to GDP indicates average inward and outward FDI relative to GDP in each year from 2004 to 2009.

Data on number of foreign affiliates in Japan and number of regular employees employed by them (Fig. 3-2-55) show that while foreign affiliates declined in

number between 2001 and 2006,<sup>33)</sup> the number of regular employees employed by them grew, and around 90% of foreign affiliates are SMEs.

**Fig. 3-2-55 Numbers of foreign affiliates and regular employees employed by them (non-primary industry)**

While the number of foreign affiliates declined between 2001 and 2006, the number of regular employees followed an upward trend.



Source: Recompiled from MIC, *Establishment and Enterprise Census of Japan*.

Notes: 1. "Foreign affiliates" are here defined as enterprises that are more than one-third foreign owned.  
2. Business establishments of sole proprietors are not included.

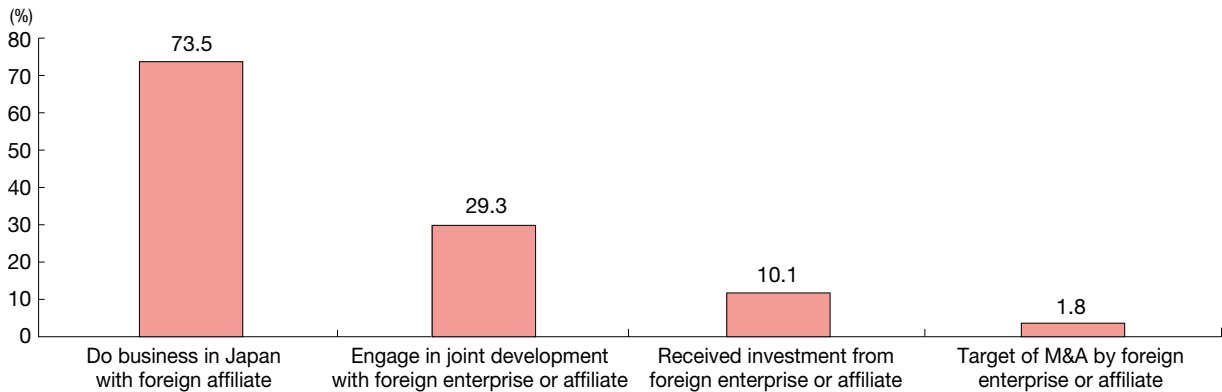
33) According to METI's *Survey of Business Trends at Foreign Affiliates*, the number of foreign affiliates in operation was 2,665 in fiscal 2006, 2,948 in fiscal 2007, and 2,763 in fiscal 2008.

Japanese SMEs also have various ties with foreign enterprises and affiliates. Fig. 3-2-56 shows the specific forms of ties enjoyed by the SMEs that have ties with foreign enterprises and affiliates observed in Fig. 3-2-41. We can see from this that 73.5% “do business in Japan with

foreign affiliates” and 29.3% “engage in joint development with foreign enterprise or affiliate.” There are also some enterprises that have “received investment from foreign enterprise or affiliate” or that were the “target of M&A by foreign enterprise or affiliate.”

**Fig. 3-2-56 Forms of ties with foreign enterprises and affiliates in Japan (proportions of SMEs that have ties with foreign enterprises or affiliates)**

73.5% “do business in Japan with foreign affiliates” and 29.3% “engage in joint development with foreign enterprise or affiliate.” Some have also “received investment from foreign enterprise or affiliate” or were the “target of M&A by foreign enterprise or affiliate.”



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

Notes: 1. Proportions where SMEs that answered affirmatively to any item =100.  
2. Totals do not necessarily sum to 100 due to multiple responses.

Below, we examine the state of domestic transactions with foreign affiliates, joint development with foreign affiliates, and receipt of investment from foreign enterprises and affiliates.

● **Business dealings in Japan with foreign affiliates**

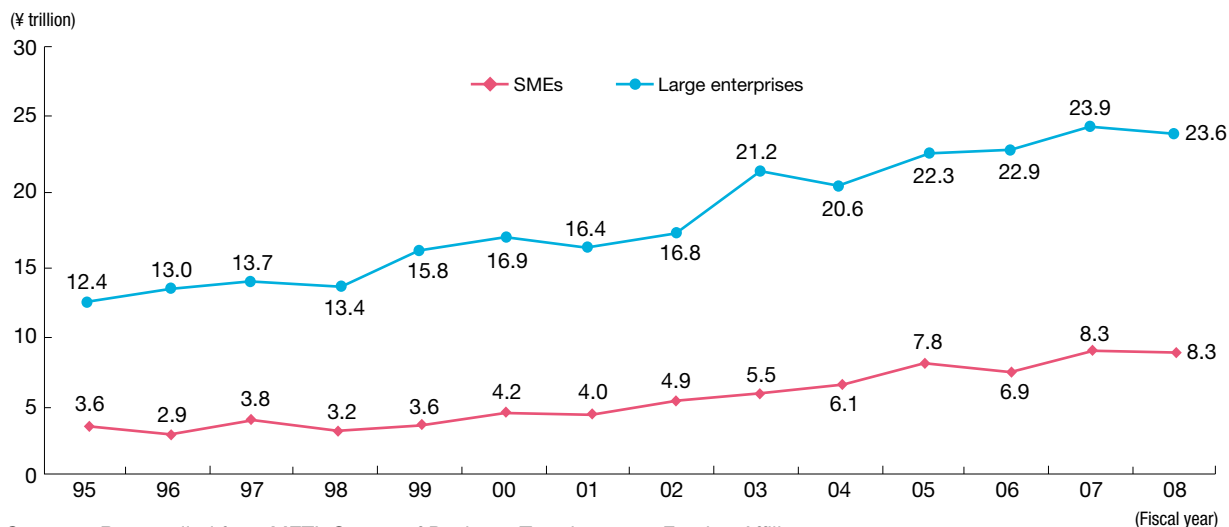
We begin by looking at the business activities of

foreign affiliates and their associated impact on Japanese SMEs. The values of domestic sales<sup>34)</sup> and domestic procurements<sup>35)</sup> of foreign affiliates are shown in Figs. 3-2-57 and 3-2-58. The domestic sales and domestic procurements of foreign affiliates of all sizes are rising, indicating that foreign affiliates are expanding their business activities in Japan.

34) Domestic sales = sales - exports  
35) Domestic procurements = goods purchased - imports

**Fig. 3-2-57 Domestic sales of foreign affiliates**

Domestic sales of foreign affiliates of all sizes are on the increase.

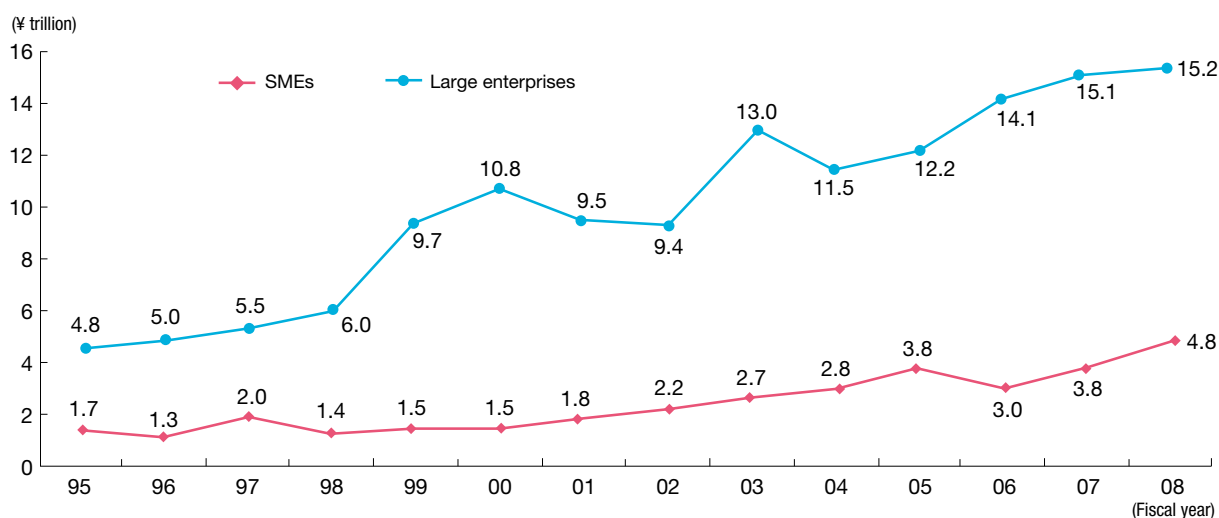


Source: Recompiled from METI, *Survey of Business Trends among Foreign Affiliates*.

Note: Domestic sales = sales - exports

**Fig. 3-2-58 Domestic procurements of foreign affiliates**

Domestic procurements of foreign affiliates of all sizes are on the increase.



Source: Recompiled from METI, *Survey of Business Trends among Foreign Affiliates*.

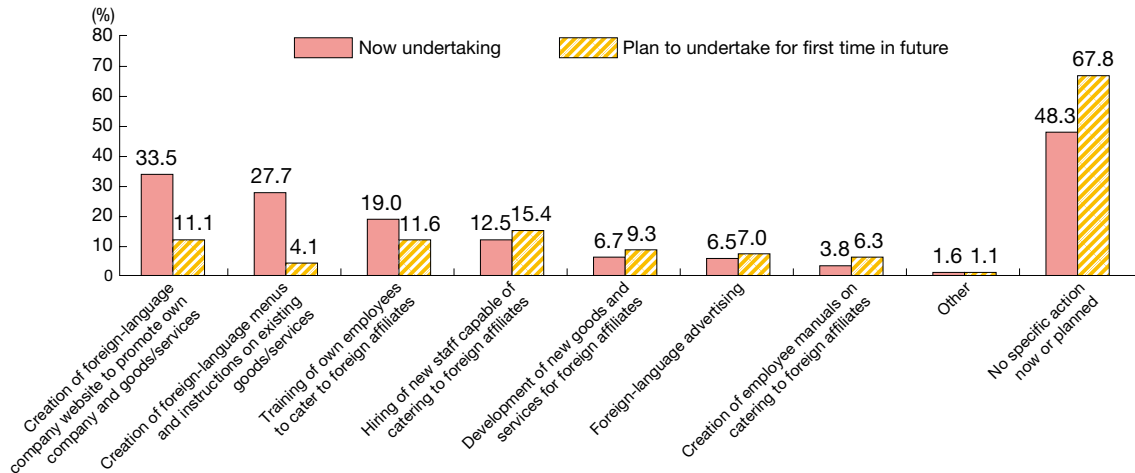
Note: Domestic procurements = goods purchased - imports

With foreign affiliates thus expanding their business activities in Japan, what steps are Japanese SMEs taking to take up the business opportunities that their growing presence creates? The commonest response according to Fig. 3-2-59 is “no specific action now or planned.” As in the case of action being taken to take advantage of the business opportunities created by foreign visitors coming to Japan, however, high proportions of enterprises are

currently engaging in action that is comparatively easy to implement, such as “creation of foreign-language company website to promote own enterprise and goods/services” and “creation of foreign-language menus and instructions on existing goods and services,” while high proportions plan to engage in the future in “training of own employees to cater to foreign affiliates” and “hiring of new staff capable of catering to foreign affiliates.”

**Fig. 3-2-59 Action to take advantage of business opportunities created by foreign affiliates' growing presence in Japan**

High proportions of SMEs are currently implementing comparatively simple measures to take advantage of foreign affiliates' growing presence in Japan, such as the creation of foreign-language websites, menus, and instructions, while a growing proportion plan to take action on human resources in the future.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

- Notes:
1. Only SMEs that responded that they do business in Japan with foreign affiliates are included in the above.
  2. "Plan to undertake for first time in future" indicates the proportion of enterprises that are not presently engaging in the action indicated but plan to do so in the future.
  3. Totals do not necessarily sum to 100 due to multiple responses.

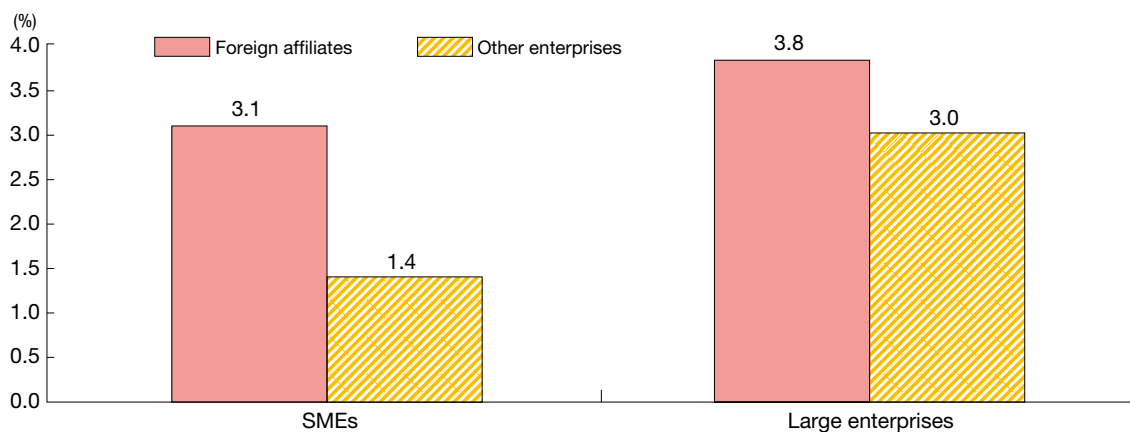
**R&D by foreign affiliates**

We next examine R&D by foreign affiliates. Figs. 3-2-60 and 3-2-61 show comparisons between foreign affiliates and other enterprises of R&D-to-sales ratios<sup>36)</sup>

and proportions of enterprises that have research facilities. This shows that, irrespective of size, foreign affiliates have higher R&D-to-sales ratios and are more likely to have research facilities than other enterprises.

**Fig. 3-2-60 R&D-to-sales ratios**

Irrespective of size, foreign affiliates have higher R&D-to-sales ratios than other enterprises.



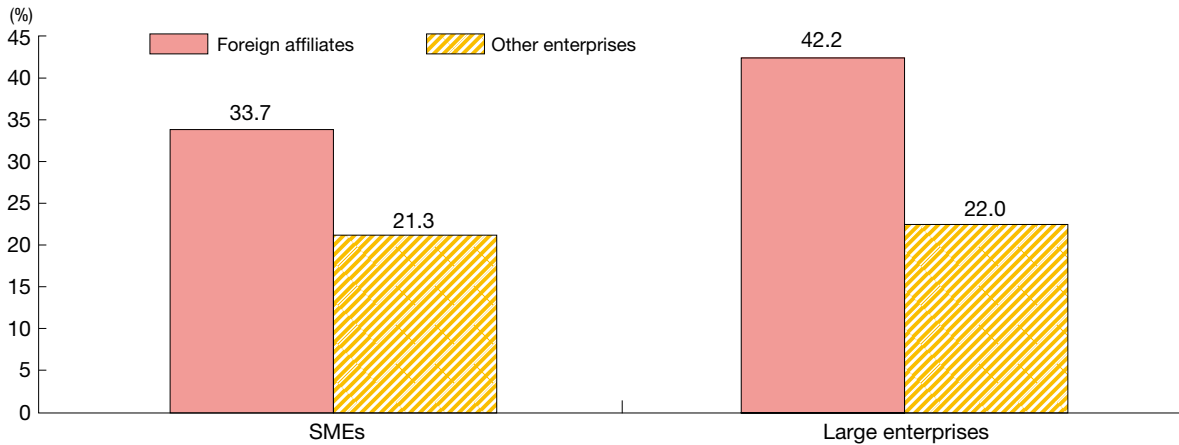
Source: Recompiled from METI, *2009 Basic Survey of Japanese Business Structure and Activities*.

- Notes:
1. "Foreign affiliates" are here defined as enterprises that are more than one-third foreign owned.
  2. "Other enterprises" are here defined as enterprises with zero foreign ownership.
  3. R&D-to-sales ratio = R&D expenditure (own and outsourced research) / sales × 100

<sup>36)</sup> R&D-to-sales ratio = R&D expenditure (own and outsourced research) / sales × 100

**Fig. 3-2-61 Proportions of enterprises with research facilities**

Irrespective of size, higher proportions of foreign affiliates than other enterprises have research facilities.



Source: Recompiled from METI, 2009 Basic Survey of Japanese Business Structure and Activities.

- Notes: 1. "Foreign affiliates" are here defined as enterprises that are more than one-third foreign owned.  
 2. "Other enterprises" are here defined as enterprises with zero foreign ownership.

It is hoped that innovation by Japanese SMEs will be stimulated through their collaboration with foreign affiliates and foreign enterprises that are active practitioners

of R&D and the introduction of new technologies from abroad.

**Case 3-2-18**

**A company which acquired technology and know-how by working with a foreign partner, and entered a different business with successful technology transfer**

Comfort-Lab Inc. is engaged in the manufacturing and sales of foot care products, support belts and other health-related products in Higashiosaka City, Osaka Prefecture with eight employees and capital of ¥10 million.

This company was originally engaged in production and sales of welding gas related products, perceived a weak future for that business, and began importing health insoles for shoes from the U.S. for sale in Japan. A competing product appeared after a few months, and Comfort-Lab sensed the limits of the simple import business. So the company came on the idea of learning health product manufacturing technologies from an American enterprise, began manufacturing that company's insoles on an OEM basis, and actively accumulated technology and know-how regarding health products.

Starting with this approach, Comfort-Lab actively formed ties with companies in Australia, New Zealand and France, accumulated technology and know-how regarding various health products, made improvements to foreign technologies and developed its own products. Then when a certain sales volume was expected, Comfort-Lab formed operating alliances with companies in China and Taiwan, established production bases through the cooperation of local firms, and initiated manufacturing and sales. By advancing internationalization in stages in this way, Comfort-Lab now earns one-third of its total sales overseas.

President Mitsuru Mukumoto says, "Overseas, if you are eager and present a proper business plan, even major companies will start doing business with you. If small companies go beyond looking for customers in Japan and seek transactions with large companies overseas, they may be able to supplement whatever management resources they are lacking."



Insole completed through joint development with a U.S. company

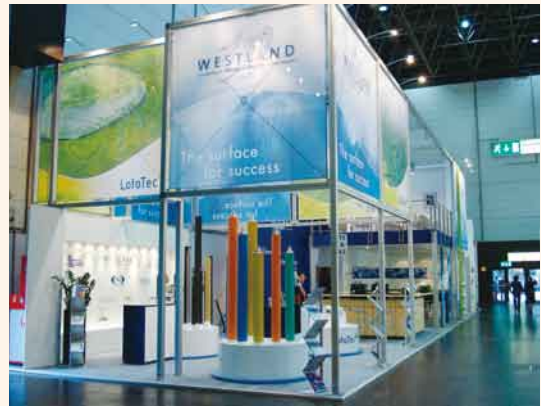
### Case 3-2-19

## A company that was founded for technology collaboration with a foreign enterprise and continued growing

Techno Roll Co., Ltd. manufactures and sells printing rollers and other items in Izumi City, Osaka Prefecture with 110 employees and capital of ¥25 million. The company was founded by Chairman Hiroshi Nishiwaki in 1980 to conduct joint development of resin rolls for printing together with a U.S. company, which Chairman Nishiwaki experienced at his former job.

While working to accumulate know-how regarding trade, Techno Roll collects opinions directly from printing companies and printing machinery manufacturers, improves technological abilities by positively advancing product development and continuously works on developing new products.

The company has also forged deeper ties outside Japan by actively participating in trade fairs overseas and making use of the Internet, and has concluded a technology cooperation agreement with a German company. Techno Roll has high-level technologies concerning resin rubber while their German partner has high-level technologies concerning synthetic rubber. Under the cooperation agreement, the two companies will learn one another's technologies, which will improve their respective internal technology capabilities. One of Techno Roll's main products is a product sold under a technical licensing agreement with the German company which presently accounts for about 30% of Techno Roll's sales.



Joint display with Techno Roll's German partner at a trade fair in Germany (the German company's products are in the center, with Techno Roll's products on the left)

## Column 3-2-3 Bill on Special Measures for the Promotion of Research and Development by Certified Multinational Companies

The relative scale of the Japanese market has been contracting with the growth of the newly emerging economies of Asia, and global enterprises are withdrawing from Japan one after another as each country in Asia is its support measures for attracting foreign enterprises. Japan is losing its status as an international business activities base for Asia.

In response, the Cabinet approved a bill on Special Measures for the Promotion of Research and Development by Certified Multinational Companies in February 2011 and submitted it to the Diet. This bill stipulates tax incentives when global corporations specified by the competent minister establish new companies to conduct research and development business or supervisory business in Japan, to encourage the use of Japan as a base by high value added multinational R&D and supervisory businesses.<sup>37)</sup>

The bill specifies reduced patent fees for the products of research and development when the newly established companies are SMEs, and additional measures for small and medium-sized investment business operators, allowing them to subscribe to shares and apply for share options in companies with stated capital exceeding ¥300 million, and providing funds procurement assistance from the Small and Medium Business Investment & Consultation Co., Ltd.

The passage of this bill is expected to promote the location of high value added global enterprises in Japan, generate employment opportunities, and lead to the development of new products and technologies through collaboration with Japanese SMEs.

### Column Fig. 3-2-3 Outline of the Bill on Special Measures for the Promotion of Research and Development by Certified Multinational Companies

#### Background

- The relative scale of the Japanese market has been contracting with the growth of the newly emerging economies of Asia, and global enterprises are withdrawing from Japan one after another as each country in Asia is strengthening its support measures for attracting foreign enterprises. Japan is losing its status as an international business activities base for Asia.

#### Bill outline

- The bill stipulates tax incentives and reduced patent fees for global enterprises designated by the competent minister, to encourage the use of Japan as an R&D base or Asian headquarters.

#### Summary of measures

##### 1. Subject business activities

- Prescribe assistance measures for new R&D or supervisory business activities (\*) that will be conducted by global enterprises designated as meeting the basic policy stipulated by the competent minister.

\* Such as determining the operating policies of subsidiaries.

##### 2. Assistance measures

Corporation tax special treatment: Five-year, 20% income deduction  
 Income tax special treatment: Stock options granted by parent company (foreign enterprise) will be given same treatment as those granted by Japanese enterprises

Reduced patent fees: Reduced patent fees for the products of research and development \*Limited to SMEs

Expedited investment procedures: 30-day period for suspending investment after notification under the Foreign Exchange and Foreign Trade Act will be reduced to two weeks

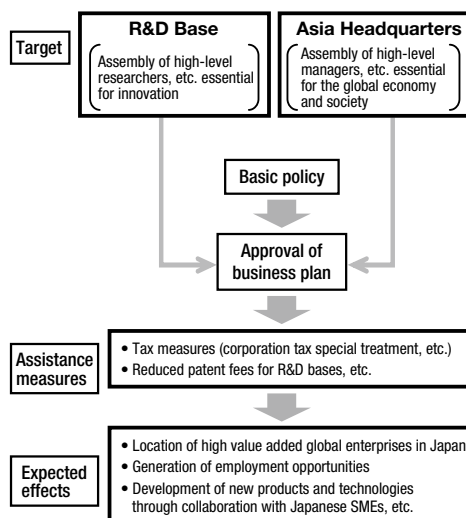
Funds procurement assistance: Funds procurement support from Small and Medium Business Investment & Consultation Co., Ltd.

\* In addition to the above, the government will also expedite the immigration procedures (certificate of eligibility) for foreigners that will be employed at specified enterprises (from one month to about 10 days)

\*Effective use of the Immigration Control Act

##### 3. Effects

- Promote the location of high value added global enterprises in Japan, and generate employment opportunities
- Development of new products and technologies through collaboration between global enterprises and Japanese SMEs



37) Businesses that determine the policies of businesses operated by two or more corporations (limited to the cases where there are two or more countries, etc. in which the head office or principal office of such corporations is located) while supervising the businesses for ensuring financing to such two or more corporations and the implementation of said policies and other businesses operated by such two or more corporations, by obtaining or retaining the majority of the voting rights of all shareholders of such two or more corporations, respectively.

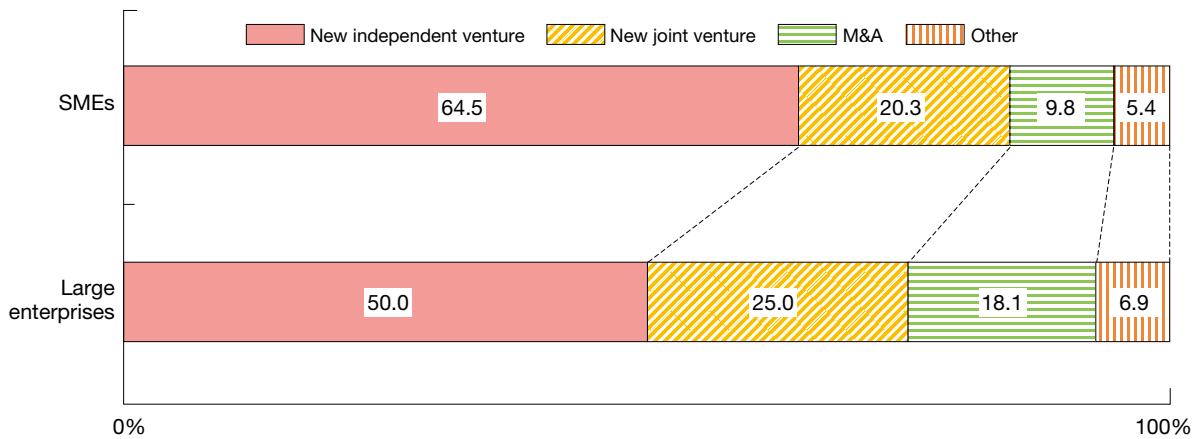
● **Investment by foreign enterprises and affiliates**

Another method by which SMEs can make use of business resources entering from abroad is through receipt of investment from foreign enterprises and affiliates. From the breakdown by size of the reasons for becoming a foreign affiliate shown in Fig. 3-2-62, it

can be seen that the largest proportion of enterprises was “newly independent ventures,” followed by “new joint ventures.” However, around 10% of SMEs and 20% of large enterprises responded that they were formed as a result of “merger and acquisition (M&A).”

**Fig. 3-2-62 Reasons for more than one third of shares or equity being held by foreign investor**

The largest proportion of enterprises was “new independent ventures,” followed by “new joint ventures.” However, around 10% of SMEs and 20% of large enterprises responded that they were formed as a result of “merger and acquisition (M&A).”



Source: Recompiled from METI, 2009 Survey of Business Trends among Foreign Affiliates.

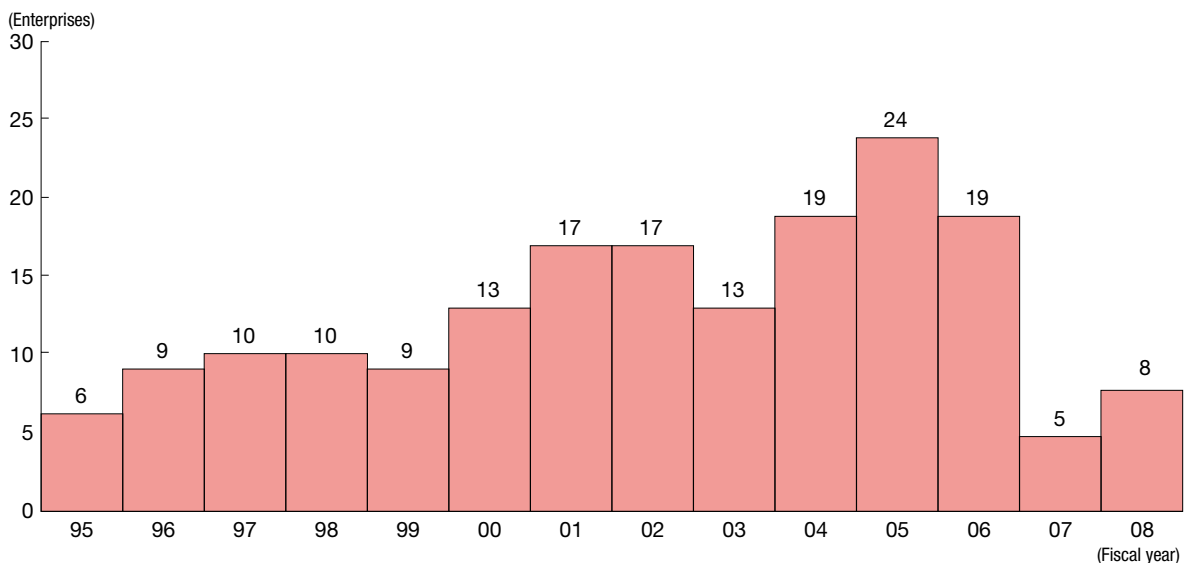
Note: “M&A” includes enterprises whose foreign ownership exceeded one third as a result of an increase of capital.

Fig. 3-2-63 shows the number of SMEs that have become foreign affiliates as a result of an M&A since fiscal 1995. It may be observed from this that the number

increased from fiscal 1995 until peaking in fiscal 2005, and is now in decline.

**Fig. 3-2-63 Number of SMEs that have become foreign affiliates as a result of an M&A**

The number of SMEs that became foreign affiliates as a result of an M&A rose from fiscal 1995 until peaking in fiscal 2005, and is now in decline.



Source: Recompiled from METI, 2009 Survey of Business Trends among Foreign Affiliates.

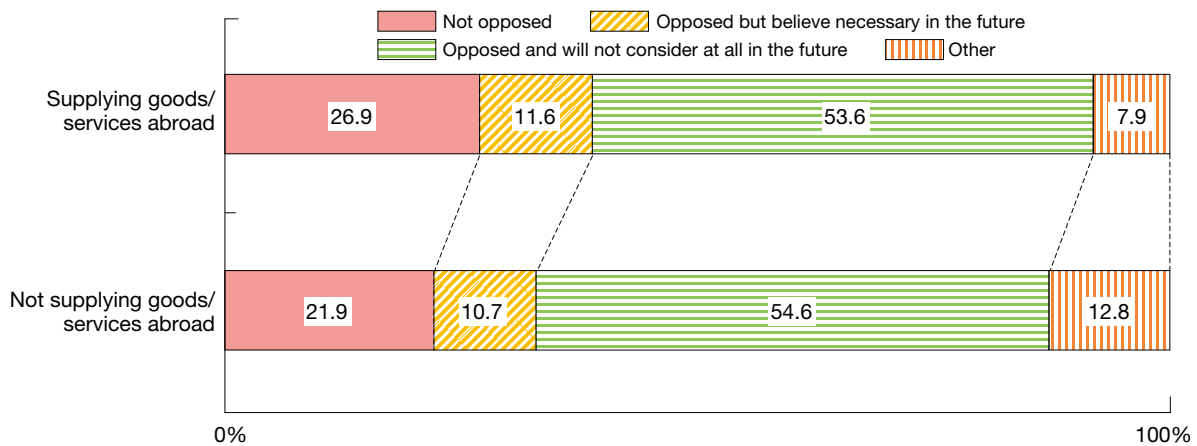
Notes: 1. Based on the fiscal year in which SMEs said that their foreign ownership exceeded one third as a result of an M&A became foreign affiliated.  
2. Including SMEs whose foreign ownership exceeded one third as a result of an increase of capital.



How then do SMEs feel about receiving investment from foreign enterprises and affiliates? From Fig. 3-2-64, it can be seen that more than one in two say that they are “opposed and will not consider at all in the future,” regardless of whether they supply goods/services abroad,

evidencing that many SMEs are resistant to the idea of receiving investment from foreign enterprises and affiliates. At the same time, however, over 20% indicate that they are “not opposed,” regardless of whether they supply goods/services abroad.

**Fig. 3-2-64 SMEs’ attitudes to receiving investment from foreign enterprises and affiliates**  
 Regardless of whether they supply goods/services abroad, a majority of enterprises are “opposed and will not consider at all in the future.”



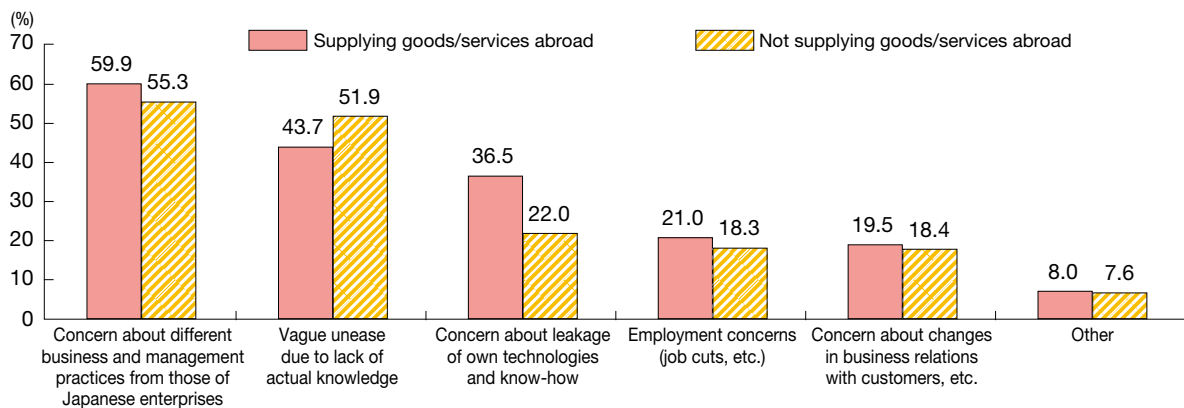
Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.  
 Note: Only SMEs are included in the above.

Looking at the reasons for being resistant to the idea of receiving investment from foreign enterprises and affiliates, as shown in Fig. 3-2-65, opposition due to “concern about different business and management

practices from those of Japanese enterprises” accounts for the largest proportion of SMEs. However 40%-50% of SMEs feel opposed owing to “vague unease due to lack of actual knowledge.”

**Fig. 3-2-65 Reasons for resistance to idea of receiving investment from foreign enterprises and affiliates**

The commonest reason for opposition is “concern about different business and management practices from those of Japanese enterprises.” However, 40%-50% report “vague unease due to lack of actual knowledge.”



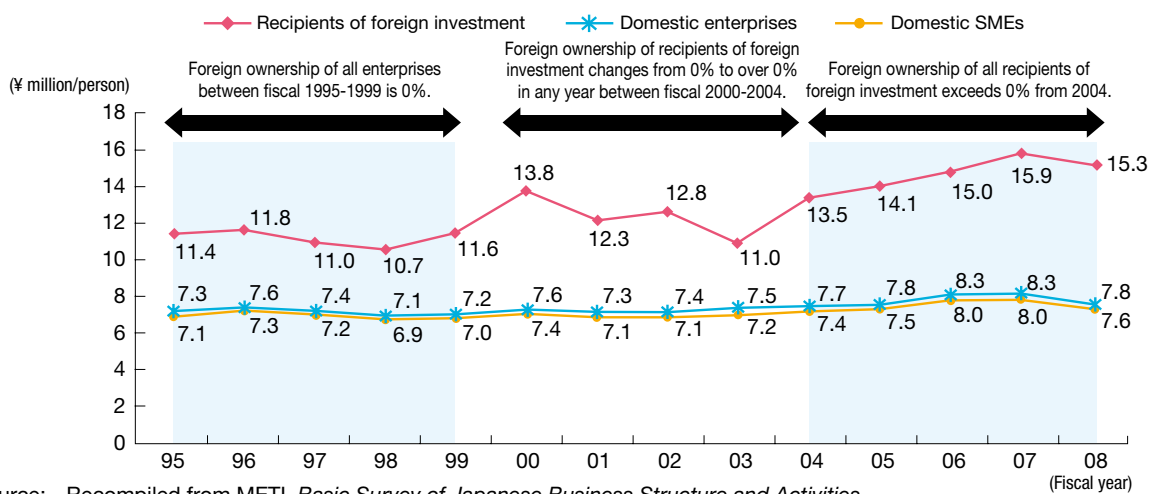
Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.  
 Notes: 1. Only SMEs are included in the above.  
 2. Totals do not necessarily sum to 100 due to multiple responses.

However, receiving investment from foreign enterprises and affiliates can also contribute to SMEs' fresh growth. Fig. 3-2-66 shows a comparison of the labor productivity of three classes of enterprise: enterprises whose foreign ownership exceeded 0% in any fiscal year between fiscal 2000 and fiscal 2004 and thereafter remained in excess of 0% (referred to below as "recipients of foreign investment"), enterprises whose foreign ownership remained zero throughout the entire period from fiscal 1995 to fiscal 2008 (referred to below as "domestic

enterprises"), and domestic enterprises that are also SMEs (referred to below as "domestic SMEs"). This shows that recipients of foreign investment tend to have higher labor productivity than domestic enterprises and domestic SMEs from prior to their receipt of foreign investment, and that their labor productivity also tends to grow more than that of domestic enterprises and domestic SMEs afterwards. This evidence suggests that SMEs may be able to raise their labor productivity by receiving investment from foreign enterprises and affiliates.<sup>38)</sup>

**Fig. 3-2-66 Labor productivity of recipients of foreign investment, domestic enterprises, and domestic SMEs**

Recipients of foreign investment tend to have higher labor productivity than other enterprises before receipt of foreign capital, and tend to exhibit higher growth in labor productivity after receipt of foreign capital.



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.

- Notes:
1. "Recipients of foreign investment" are here defined as enterprises whose foreign ownership exceeded 0% in any year between fiscal 2000 and fiscal 2004 and thereafter remained in excess of 0%.
  2. It is possible that recipients of foreign investment may, while being SMEs, have changed in size or industry following their receipt of foreign investment.
  3. "Domestic enterprises" are here defined as enterprises whose foreign ownership was 0% throughout the period from fiscal 1995 to fiscal 2008.
  4. "Domestic SMEs" are here defined as SMEs whose foreign ownership was 0% throughout the period from fiscal 1995 to fiscal 2008.
  5. Only enterprises that responded continuously from fiscal 1995 through fiscal 2008 are included.
  6. Labor productivity = value added / number of employees

While we have demonstrated that a high proportion of Japanese SMEs are resistant to the idea of receiving investment from foreign enterprises and affiliates, the potential for growth that such investment creates makes it important that enterprises correctly recognize the advantages and disadvantages of receipt of foreign capital to enable them to reach a rational decision on whether to accept it.

● **Economic partnerships**

So far, we have examined SMEs' sale and delivery of goods and services abroad and their taking up of international business opportunities without leaving Japan's shores. At the national level as well, however, the Japanese Government is keeping up with global trends by developing high-level economic partnerships with key trading partners in order to "open up the country" and

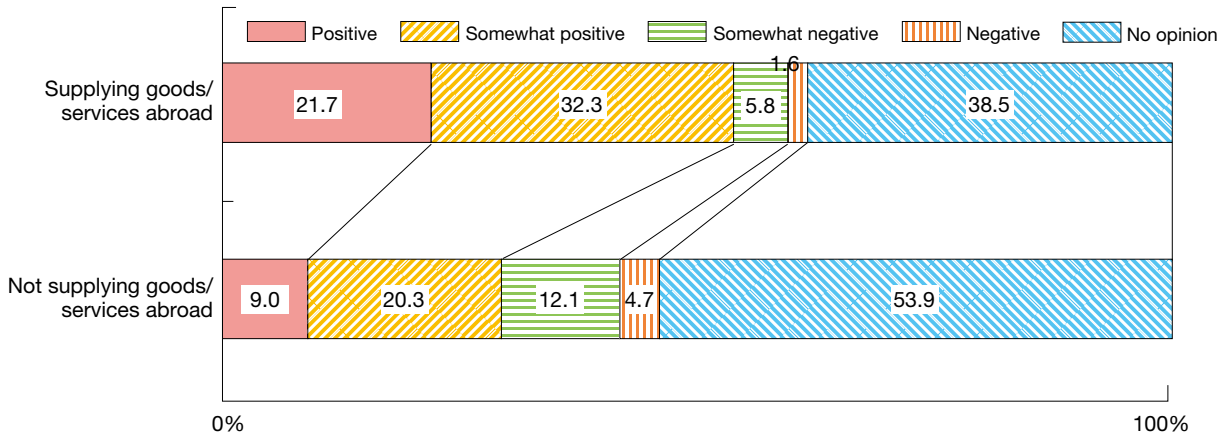
"pioneer a new future" in accordance with the "Basic Policy on Comprehensive Economic Partnerships" adopted by the Cabinet on November 9, 2010.

We turn lastly, therefore, to consider SMEs' attitudes to the growing traffic in human resources, physical goods, and capital resulting from this development of economic partnerships with other countries. We begin with Fig. 3-2-67, which shows a comparison of the effects of growing economic partnerships on SMEs that supply goods/services abroad and those that do not. This reveals that, if the "positive" and "somewhat positive" responses are combined, more than 50% of enterprises supplying goods/services abroad say that these partnerships impact positively on their businesses. While among enterprises that do not supply goods/services over 50% responded that they have "no opinion" on the issue, some 30% nevertheless report "positive effects."

38) As the number of workers at recipients of foreign investment exhibits a similar trend after receipt of foreign capital to that of domestic enterprises and domestic SMEs, the growth in labor productivity appears to be due to growth in value added. See Appended Note 3-2-9.

**Fig. 3-2-67 Effect on SMEs of growing economic partnerships with other countries**

Over 50% of enterprises that supply goods/services abroad say that the effect has been positive. While among enterprises that do not supply goods/services abroad over 50% responded that they have “no opinion,” some 30% nevertheless report “positive” effects.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

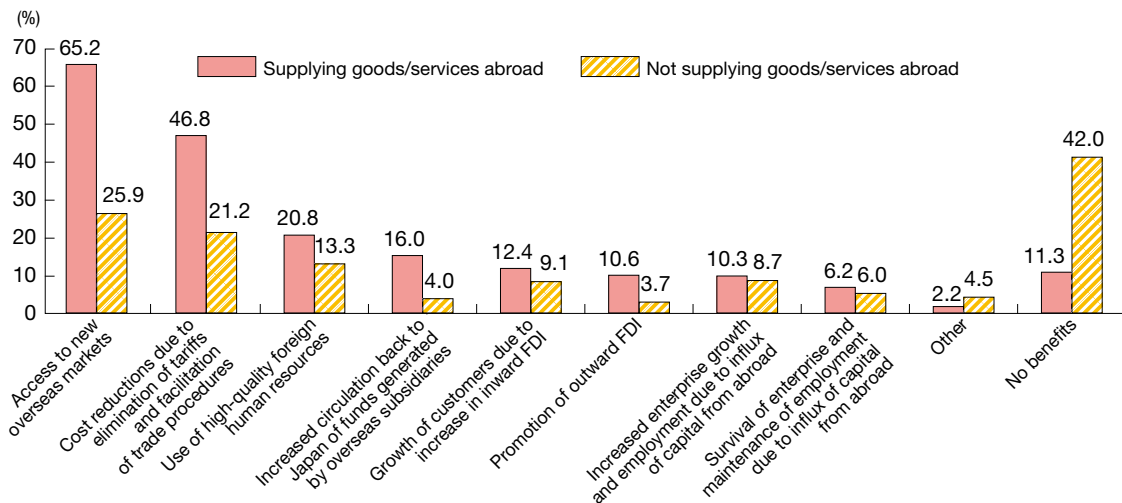
Note: Only SMEs are included in the above.

SMEs’ perceptions of the benefits of growing economic partnerships are shown in Fig. 3-2-68. It can be seen from this that while high proportions of enterprises that supply goods/services abroad cite “access to new overseas

markets” and “cost reductions due to elimination of tariffs and facilitation of trade procedures,” around 60% of enterprises that do not supply goods/services abroad also consider there to be benefits.

**Fig. 3-2-68 Benefits anticipated by enterprises as a result of increased international economic partnerships**

While high proportions of enterprises that supply goods/services abroad cite “access to new overseas markets” and “cost reductions due to elimination of tariffs and facilitation of trade procedures,” around 60% of enterprises that do not supply goods/services abroad also consider there to be benefits.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey on Targeting of Growth in Overseas Markets* (November 2010), commissioned by SME Agency.

Notes: 1. Only SMEs are included in the above.  
2. Totals do not necessarily sum to 100 due to multiple responses.

These results point to the importance of deepening enterprises' understanding of economic partnerships by demonstrating how progress in this area will affect them in concrete terms.<sup>39)</sup>

In this section, we have examined how enterprises are responding to the growing international business opportunities available in Japan by examining trends in imports, foreign visitors to Japan, use of foreign human resources, and foreign affiliates, and by demonstrating their impact on Japanese SMEs. By taking such action,

Japan's SMEs can take up international business opportunities without having to "globalize" by establishing operations overseas. Due to the effects of the Great East Japan Earthquake, Japan's SMEs now face very difficult circumstances. It is hoped, though, that as the interface between the domestic and international economies becomes increasingly seamless in the years ahead, Japan's SMEs will steadily take on the growing and diversifying business opportunities created as a result to contribute to the country's economic growth.

### Column 3-2-4 APEC<sup>40)</sup> SME Ministerial Meetings

As the APEC host economy, Japan held the 2010 SME Ministerial Meeting in Gifu City, Gifu Prefecture on Oct. 2-3, 2010. This was only the second time for the SME Ministerial Meeting to be held in Japan following the first meeting in Osaka 16 years earlier. An SME symposium and an SME international trade fair took place along with the ministerial meeting.

The ministerial meeting recognized SMEs as a significant source of prosperity and employment, and a major contributor to technological innovation. With the theme of strategy for reinvigorating economic growth with the dual engines of SMEs and the Asia-Pacific economy, the meeting held discussions regarding (1) analysis of the present conditions of SMEs, (2) short-term prospects for the next 2-3 years, and (3) the prospects for SME policy looking toward 2020.

The Joint Ministerial Statement<sup>41)</sup> adopted as the conclusion of these discussions recognizes the importance of (1) developing and presenting strategies or action plans to bring SMEs into areas seen as future growth sectors, and (2) taking specific measures to strengthen SMEs' access to global markets.

The statement concludes that "By advancing the above efforts, we, the Small and Medium Enterprises Ministers, aim to generate dynamic and diverse SMEs in the Asia-Pacific region, from micro to mid-sized enterprises, industries that support the basics of everyday life through to those developing and employing the most advanced technologies." In particular, the ministers agreed to advance the following three approaches to strengthen SMEs' access to global markets as the "Gifu Initiative."

The Gifu Initiative

- (1) Supporting SMEs to take advantage of each locality's domestic and regional resources to develop high value-added products, and to sell to the global marketplace, through the APEC-wide and global "One Village One Product" model;
- (2) Promoting exhibitions and trade shows that are open to the Asia-Pacific region's SMEs through APEC market-opening activities such as the APEC SME exhibition model and exhibition information sharing platforms; and
- (3) Supporting SMEs to expand and strengthen networking by launching international internship and exchange programs such as the APEC SME CEOs' Network.

The 2011 APEC SME Ministerial Meeting took place on May 21, 2011 in Big Sky, Montana, U.S. together with the Meeting of APEC Ministers Responsible for Trade. The meeting reaffirmed the importance of continuing to work toward SMEs' participation in high-growth sectors and SMEs' access to global markets as agreed the prior year in Japan.<sup>42)</sup>

At the meeting, the Japanese delegation reported the specific progress made implementing the Gifu Initiative in Japan since the previous October in the following three areas, and confirmed the importance of implementing the initiative: (1) conducting a survey on "One Village One Product" best practices and holding seminars; (2) sharing information on international trade fairs and holding combined SME trade fairs that can serve as an SME support exhibition model; and (3) implementing SME management exchange programs.

METI is working to advance these measures and further improve the environment for Japanese SMEs themselves to sell and provide their goods and services on foreign markets.

39) Estimates of the change in Japan's GDP that would occur assuming the abolition of tariffs between APEC members reported on p. 195 of the *2010 White Paper on Small and Medium Enterprises in Japan* show that even SMMs will be positively affected by increased trade liberalization.

40) APEC (Asia-Pacific Economic Cooperation) is a forum for the sustainable growth of the Asia-Pacific region. As of March 2011, APEC has the 21 members: Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Republic of the Philippines, Russian Federation, Singapore, Chinese Taipei, Thailand, United States of America, and Viet Nam.

41) For reference, see the 2010 APEC SME Ministerial Meeting Joint Ministerial Statement at SME Agency's following website: <http://www.chusho.meti.go.jp/keiei/kokusai/download/101003APEC-SMEMM-E.pdf>

42) For reference, see the 2011 APEC SME Ministerial Meeting Joint Ministerial Statement at SME Agency's following website: [http://www.apec.org/en/Meeting-Papers/Ministerial-Statements/Small-and-Medium-Enterprise/2011\\_sme.aspx](http://www.apec.org/en/Meeting-Papers/Ministerial-Statements/Small-and-Medium-Enterprise/2011_sme.aspx)

# Conclusion

## Rebuilding from the Earthquake and Surmounting Growth Constraints

The magnitude 9.0 earthquake that struck off the coast of Sanriku on March 11, 2011, was the most powerful ever recorded in Japan, and left over 20,000 people dead or missing. The tremendous damage was compounded by a combination of other factors that engulfed the whole of Japan in a disaster of unprecedented proportions. SMEs also suffered immense damage, including the destruction of industrial infrastructure by the earthquake and ensuing tsunami, damage to plants and stores, and business stoppages resulting from the nuclear crisis in Fukushima. Further afield, SMEs were affected by the disruption of business due to the earthquake's impact on suppliers in the affected regions, deterioration of consumer sentiment, and shrinking sales.

These circumstances form the backdrop for this report, which began with an analysis of recent trends among SMEs and the impact of the earthquake and associated disasters on them. This was followed by an examination of the important roles played by them in the Japanese economy and society, recognition of which has been renewed by the effects of the earthquake, and an exploration of future directions in the recovery and development of the SMEs that are key to Japan's economic growth.

Part I surveyed trends in indicators of business conditions, production, financial position, employment, and so forth among SMEs, and analyzed the impact of the earthquake and associated disasters on them. Part II demonstrated how SMEs support Japan's industry and local infrastructures and how they are responding to the rapid economic slowdown and deepening structural issues, and analyzed the importance of SMEs to the Japanese economy and society. Due to their importance to the sustained growth of the Japanese economy, Part III then analyzed current trends and issues in moves by entrepreneurs to start up or change their businesses, raise labor productivity, and target business opportunities overseas in the face of the severe conditions created by the earthquake.

Below, we conclude this report by summarizing the main points of each part and sketching out directions in SMEs' future recovery and development.

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### Part I Recent trends among SMEs

#### ● Trends among SMEs in fiscal 2010

While SMEs' business conditions and production showed signs of picking up, they worsened considerably following the earthquake. Financial positions are also deteriorating considerably, and the unemployment rate remains high. The yen's increasing appreciation and escalating crude oil prices also present future risks.

#### ● Impact of the Great East Japan Earthquake on SMEs

In coastal areas, the tsunami devastated plants, stores, ports, and other industrial infrastructure, along with essential local community services. The business activities of SMEs and shopping districts in areas that were untouched by the tsunami but that suffered earthquake damage were also severely affected by the damage and destruction of buildings and facilities, and inability to

procure raw materials and deliver products due to the disruption of physical distribution. In the evacuation zones set up around nuclear power plants, enterprises found it difficult to engage in business activity and the way ahead is uncertain. Goods made around these zones are experiencing slack demand and loss of customers. Nationally as well, SMEs have been affected by the impact on retailing and services of the deterioration of consumer sentiment, and the difficulty of doing business with the affected regions. To help SMEs to overcome these difficult circumstances, the Government is fully committed to a range of support measures, including the provision of financial assistance and support to assist the restoration of operations at factories, etc., designed to enable the earliest possible recovery of SMEs that have been affected by the earthquake.

## Part II SMEs' role in sustaining the economy and society

### ● SMEs as the bedrock of industry and communities

SMEs account for 99.7% of all enterprises and around 70% of all jobs. Small municipalities have a high proportion of SMEs, and their importance to employment and in other areas is rising.

SMEs generate around one half of Japanese manufacturing's value added. In the manufacturing industry of transportation equipment, the large automakers making extensive purchases are supported by large numbers of SMEs making automobile parts and accessories, and these include enterprises that themselves coordinate numerous SMEs or manufacture a range of types of parts. The interruption of production by core SMEs following the earthquake impacted on industrial supply chains, reminding us of their fundamental importance to industry. Since the earthquake, the situation facing SMEs has grown more severe. Nevertheless, it is hoped that, through their efforts and ingenuity, they will contribute to the recovery and development of Japanese industry.

SMEs also account for some 70% of the value of retail sales. In municipalities with small populations, the proportion is higher still, as is the proportion of sales accounted for by foodstuffs, petroleum and gas. Small and medium retailers consequently occupy a pivotal position in such municipalities as suppliers of daily necessities. Many consumers believe that the disappearance of shopping districts would depress their communities and make shopping more difficult for some, while shopping districts consider themselves to form an essential part of their communities. In regions affected by the earthquake, shopping districts have quickly reopened, helping local residents to get on with their lives and bringing life back to their communities. In recent years, shrinking domestic demand and increasing competition from large stores have caused small and medium retailers' sales and floor space to fall dramatically (including in the affected regions), making it necessary that shopping districts take action based on an accurate understanding of local residents' needs.

### ● Measures to preserve SMEs' virtues

Structural challenges such as the decline of domestic demand and intensification of global competition have grown more serious since the earthquake, presenting some SMEs with a bleak future and requiring that necessary measures be taken.

Some SMEs are considering closing down due to being unable to find successors to take on their businesses. To date, the Government has provided support for SME business successions between relatives. In order to facilitate successions between non-relatives so as to

ensure that SMEs' business resources are not lost due to closures, the Government is now also putting in place arrangements to help match interested enterprises under the Act on Partial Revision of the Act on Special Measures for Regeneration of Industrial Vitality and Innovation of Industrial Activities.

In the interests of protecting employees' jobs and ensuring customer satisfaction, SMEs that have fallen into difficulties must also be encouraged to turn themselves around by reaching appropriate accommodations with their creditors. In many such cases, a problem is posed by proprietors' poor motivation to make business improvements, often due to the fact that the amount of debt personally guaranteed by proprietors exceeds their own personal assets. Thus, while some SMEs are able to make effective use of the civil rehabilitation system to implement restructuring plans and regenerate their performance, there also exist enterprises pursuing rehabilitation and proprietors that remain heavily burdened by debt guarantees.

High proportions of SMEs have low equity ratios and are dependent on indirect finance. In the wake of the earthquake, SMEs consulted regional financial institutions about a range of issues, especially financing, and regional financial institutions are providing diligent support in response. Some of these consultations have concerned the problem of "double loans," which arise when a borrower is faced with making two sets of repayments due to having to take out an additional loan to repair buildings or facilities. As the exact nature of the problem varies according to enterprises' individual circumstances, support must be appropriately tailored to meet their specific circumstances. SMEs need to develop good relations with financial institutions for all kinds of purposes, and not just for post-quake reconstruction. Both SMEs and financial institutions consider direct visits to be an important means of contact, indicating that they want to develop relations through mutual face-to-face contact. Whereas SMEs seek advice about moving into new fields of business, however, financial institutions attach greater importance to consultations concerning business planning, evidencing a degree of dissonance between the two sides for their perceptions of needs. It is hoped that each will gain a better understanding of the other's needs in the future to enable support to be provided more effectively.

With the earthquake having made structural issues more serious, it is important that the virtues of the SMEs that underpin the economy and society be preserved through business successions, business rehabilitations, and community-based finance, leading to SMEs' future recovery and development.

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## Part III SMEs as generators of economic growth

### ● Startups and changes of business

Given the increases in bankruptcies and closures of large numbers of SMEs due to the earthquake, startups and changes of business must also be promoted to assist the process of economic renewal and job creation.

Japan's entry rate has hovered between 2% and 5% in recent years. Looked at by industry, entry rates are higher in information and communications industries and the medical, health care and welfare fields. Although the number has been on the decline in recent years, there are still over a million people interested in starting up in business in Japan, and around 200,000 to 300,000 actually do so each year. Startups are significant for a number of reasons, the most notable being that: (1) approximately 45% of business establishments in manufacturing were started up in the past 20 years, thereby contributing to economic renewal; (2) younger enterprises' sales tend to grow more than those of older enterprises, contributing to enterprise growth; and (3) considerable employment is generated by entering business establishments, leading to job creation and greater social diversity. While financing and finding human resources present challenges at startup, subsequent success depends more on past experience and personal connections, evidencing the importance of approaching startups in a realistic manner.

Regarding recent trends in changes of business, there have been high levels of changes of industry between the wholesale and retail trades and between the wholesale trade and manufacturing. Within manufacturing, changes of industry between the fabricated metals and general machinery industries have also been common. Changes of business are also significant because: (1) changes in enterprises arising from changes in business lead to economic renewal; and (2) business establishments that pursue changes of business for positive reasons contribute to enterprise growth through growth in sales and ordinary profit. Financing, hiring human resources, and finding customers all present problems when changing business. Success, however, depends on finding the human resources and customers to continue to engage in steady business after the changeover.

### ● Improvement of labor productivity

Population decline coupled with the falling birthrate and demographic aging is expected to cause the population aged 15 to 64 to shrink, while energy supply constraints have been further tightened by the effects of the earthquake. Given these circumstances, enterprises must raise labor productivity if the Japanese economy is to enjoy sustained growth.

Large enterprises' labor productivity presently far exceeds that of SMEs in practically all industries. As large enterprises account for only around 30% of total

employment, however, there are limits to how much they can contribute to Japan's sustainable economic growth by themselves. If the Japanese economy is to achieve sustained growth, improvements in labor productivity at the SMEs that account for around 70% of employment are also essential. One obstacle that a high proportion of SMEs regard as making it more difficult to raise labor productivity than in the past is the weakness of sales due primarily to deflation and the contraction of domestic markets. While SMEs also need to further increase efficiency (including energy efficiency to cope with the tighter post-quake energy situation) in order to raise their labor productivity, mid- to long-term improvements in labor productivity also depend on taking steps to expand the number of clients, raise spending per customer, hire and develop human resources, and innovate technologically. However, such action takes comparatively longer to bear tangible fruit than the adoption of IT, energy conservation, automation, and business process reform. As it can be difficult for SMEs to implement these and other measures to raise labor productivity under their own steam, effective support needs to be provided that takes account of their needs.

### ● Taking up of international business opportunities

The effect of the earthquake has been to further accelerate the shrinkage of domestic demand and intensification of global competition. Exports and numbers of foreign visitors to Japan have declined, and there have been signs of some foreign enterprises and affiliates leaving the Japanese market. Conditions thus remain extremely severe. Given the unlikelihood of any major increase in domestic demand in the medium to longer term, Japan's SMEs need to target business opportunities abroad, where high growth continues, if they are to grow further.

While many SMEs engaging in globalization supply the same goods and services overseas as they do in Japan, not many have succeeded in securing significant shares of their host markets. SMEs that have succeeded in doing so tend to be the ones that gather information from local enterprises and visit and research their host markets, indicating that directly collecting information on host markets is one key to successful globalization. Strengths common to enterprises that have secured market share in both Asia and the U.S. or Europe are customer support and brand strength. Differences exist, however, with market share winners seeing price competitiveness and delivery times as strengths in Asia, compared with upmarket image and rarity in the U.S. and Europe. SMEs need to globalize by clearly identifying their own strengths and tastes in their target markets.

It is also possible for SMEs that have yet to embark

on globalization to do so by taking up international business opportunities without leaving Japan's shores, such as by importing from abroad, developing ties with foreign enterprises and affiliates, and supplying goods and services to foreign tourists. While some SMEs report being unaffected, positively or negatively, by growing economic ties with other countries, others say that they have been positively affected in that they have gained access to new foreign markets, and some enterprises are hoping to take advantage of the international business opportunities on offer. Despite now facing extremely difficult circumstances due to the effects of the earthquake, it is hoped that, as the interface between the domestic and international economies becomes increasingly seamless in the years ahead, these developments will lead to greater and more diverse business opportunities for SMEs.

The earthquake has forced many SMEs to go bankrupt or close down, and has intensified preexisting challenges such as energy constraints, shrinking domestic demand, and intensifying global competition. While post-quake recovery is naturally the most immediate concern, it is also important that attention be given to promoting economic renewal through startups and changes of business and to encouraging SMEs to raise labor productivity and take up international business opportunities if the Japanese economy is to grow in the future.

We therefore conclude this year's *White Paper on Small and Medium Enterprises in Japan* by expressing the Japanese Government's earnest hope that the SMEs that are the pillars of the Japanese economy and society recover as soon as possible from the effects of the Great East Japan Earthquake so as to continue to grow and propel Japan's economic growth.





# **SME policies implemented in fiscal 2010**





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## Introduction

Accounting for 99.7% of all enterprises and 70% of employment, SMEs lie at the root of Japan's economic dynamism.

The Small and Medium Enterprise Charter adopted by the Cabinet in June 2010 makes this point in its preamble, which states that SMEs are "the driving force of the

Japanese economy and central players in society." Below, we outline the measures implemented in fiscal 2010 to support and stimulate SMEs that are the linchpins of the Japanese economy in accordance with the principles set forth in this charter.

## Chapter 1 Wide-ranging support for SMEs

### Section 1 Facilitation of financing

SMEs continued to be particularly seriously affected by the global financial crisis that erupted in the autumn of 2008. To help them cope with the consequent decline in orders received and substantial deterioration of revenues, therefore, the various measures adopted to assist SMEs financially in the latter half of fiscal 2008 and in fiscal 2009, including the provision of counter-cyclical emergency guarantees, safety net loans, and encouragement of loan modifications, were maintained in fiscal 2010. A total of ¥57 trillion was set aside for these programs.

Thanks in part to this financial assistance for SMEs, the financial position DI (according to SME Agency and SMRJ, *Survey on SME Business Conditions*) recovered to surpass its pre-Lehman crisis level in the second quarter of fiscal 2010, and the recovery trend continued thereafter. Use of counter-cyclical emergency guarantees also settled down in fiscal 2010 as demand for fresh capital eased (falling 19% from a year earlier to ¥8.1 trillion for the year as a whole). Demand for loan modifications and refinancing, on the other hand, rose (¥8.4 trillion worth of loans were refinanced by public financial institutions, up 33% from a year earlier).

Against this backdrop, use was made of the fiscal 2010 budget's contingency reserve for economic crisis response and regional revitalization ("contingency reserve") in accordance with the "Three-Step Economic Measures for the Realization of the New Growth Strategy—Emergency Action to Currency Appreciation and Deflation" adopted by the Cabinet on September 10, 2010, to encourage modifications of loans guaranteed by credit guarantee corporations. Further financial support measures worth a total of ¥15 trillion were then implemented with funding under the fiscal 2010 supplementary budget in accordance with the "Emergency Economic Package in Response to Currency Appreciation and Deflation: Step 2 toward Realization of the New Growth Strategy." These included: (1) promotion of guarantees of refinanced loans and loan modifications to meet rising demand, (2) prioritization of safety net guarantees for SMEs and guarantees of small loans for small enterprises, as such enterprises had been particularly affected by worsening business conditions,

and (3) enhancement of direct lending such as refinancing and safety net lending provided by the Japan Finance Corporation ("JFC").

Private financial institutions have also made steady progress in facilitating the financing of SMEs under the Act concerning Temporary Measures to Facilitate Financing for SMEs ("SME Financing Facilitation Act"), which entered effect in December 2009, and the rate of approval of SME loan modifications now exceeds 90%. Similar responses have additionally been adopted by the JFC and the Shoko Chukin Bank ("Shoko Chukin") in line with the aims of the aforesaid act.

\*It should be noted that the above financial position DI deteriorated considerably in March 2011, when the Great East Japan Earthquake occurred. Measures implemented in response to the earthquake and ensuing disasters are described in Chapter 5.

#### ● Specific measures

##### 1. Provision of counter-cyclical emergency guarantees

The counter-cyclical Emergency Guarantee Program provides an additional system of financial guarantees separate from the ordinary guarantees provided by credit guarantee corporations to SMEs when they take out loans from private-sector financial institutions. The program, which covers basically all industries, has been made accessible to SMEs by designating industries in larger blocks and making the approval requirements for users more flexible in response to calls from those involved in the use and operation of the system.

##### 2. Promotion of safety net financing

Safety net lending consists of loans worth up to ¥720 million (in the case of SMEs) or ¥48 million (in the case of small enterprises) to SMEs that, regardless of industry (with the exception of certain industries such as those restricted by government ordinance, and agriculture, forestry, and fisheries), have experienced a decline in sales or revenues due to changes in socioeconomic conditions. In view of the recent deterioration of the employment environment, SMEs that meet certain requirements are also now allowed to

pay reduced rates of interest. As of the end of March 2011, loans worth a total of approximately ¥4.3 trillion had been made under this program.

### 3. Implementation and extension of the SME Financing Facilitation Act

Since the entry into effect of the SME Financing Facilitation Act in December 2009, inspections and supervision have been carried out to verify that financial institutions are modifying loans in an appropriate manner. In view of the economic and financial situation and the state of action by financial institutions to facilitate financing, the SME Financing Facilitation Act's period of effect was extended for another year beyond the originally planned end of March 2011.

### 4. Accommodation of applications for alteration of lending conditions (contingency reserve: ¥33.0 billion)

Credit guarantee corporations, the JFC, and Shoko Chukin actively accommodated applications for loan modifications. Credit guarantee corporations far exceeded their target of modifying ¥2 trillion worth of loans from January 2010 to the end of March 2011 to accommodate approximately ¥7.4 trillion (as of the end of March 2011). The JFC and Shoko Chukin, meanwhile, significantly exceeded their target for fiscal 2010-2011 of ¥3.3 trillion to accommodate a total of approximately ¥4.6 trillion (as of the end of March 2011).

### 5. Implementation of Current Asset-backed Guarantee Program (fiscal 2010 budget: included in ¥81.3 billion)

Under the Current Asset-backed Guarantee Program, credit guarantee corporations provide financial guarantees for loans by financial institutions that are secured against SMEs' accounts receivable and inventories. Its wider adoption has been promoted to encourage lending that does not depend excessively on personal guarantees and real estate collateral. Between December 2001 and the end of March 2011, accounts receivable-backed loans worth approximately ¥2.2 trillion and inventory-backed loans worth ¥480.0 billion were provided.

### 6. Provision of subordinated lending (fiscal 2010 budget: ¥36.0 billion)

The JFC provided lending to enterprises that engage in initiatives such as startups, restructuring, and business activities that contribute to maintaining and improving regional economic vitality. These took the form of subordinated loans,\* whose purpose is to make these enterprises financially more robust and facilitate their raising of funds from private financial institutions. As of the end of March 2011, loans worth ¥22.0 billion had been provided.

\* Under the bullet loan system, loan repayments are subordinated to other claims if an SME recipient of a loan enters legal bankruptcy. By designing the system so that, for example, interest rates are modified according to SMEs' financial success each term, subordinated loans can now be treated as capital for the purpose of financial inspections.

### 7. Provision of support to counter high real interest rates due to deflation

To bolster borrowing for purposes such as capital investment, which has been depressed by high real interest rates due to deflation, the JFC and financial institutions designated to provide counter-crisis lending commenced action on February 15, 2010, to lower interest rates on loans for such purposes for a period of two years.

### 8. Marukei loans (fiscal investment and loan program) (fiscal 2010 budget: ¥3.60 billion)

Compared even with other SMEs, small businesses are especially unstable and short of security and credit, necessitating further measures to improve their access to the financial resources that are their business lifelines. The JFC has therefore provided unsecured and unguaranteed loans subject to management guidance from business advisors at associations and chambers of commerce and industry and prefectural federations of societies of commerce and industry. Following on from the previous fiscal year, the following steps have also again been taken to enhance lending: (1) raising of the ceiling on loans from ¥10 million to ¥15 million, (2) extension of the term of loans from five to seven years if used for working capital, and from seven to 10 years if for capital investment, and (3) extension of the deferment period from six months to one year if for working capital, and from six months to two years if for capital investment. In fiscal 2010, 37,654 loans worth a total of ¥147.8 billion were provided.

### 9. Small Enterprise Equipment Funding Program (equipment fund loans and equipment lending) (fiscal investment and loan)

In order to promote small enterprise startups and the introduction of facilities necessary to strengthen their business foundations, interest-free equipment fund loans and equipment lending have been provided through prefectural lending agencies. In fiscal 2010, 401 fund loans and 753 equipment lending were made.

### 10. Investment by Small and Medium Business Investment & Consultation Companies

In order to help enhance SMEs' capital adequacy and contribute to their sound growth and development, Small and Medium Business Investment & Consultation Companies operated a number of programs to assist the development of SME operations. These

included investment programs involving the underwriting of shares, share options, bonds with share options, business consultations, and assistance with business successions. As of the end of March 2011, these companies had outstanding investments in 2,223 enterprises worth a total of ¥69.9 billion.

#### **11. Securitization of SMEs' receivables from exports covered by trade insurance (provided in cooperation with Shoko Chukin)**

Financing of SMEs was promoted in collaboration with related agencies through such means as the partial waiver by Nippon Export and Investment Insurance (NEXI) of certain obligations of insured parties, such as the obligation to recover export receivables that have been transferred from an SME to a financial institution after an insured event (i.e., the obligation to seek to recover monies even after receipt of payment of an insurance claim following an insured event). More specifically, Shoko Chukin and NEXI entered a service partnership memorandum of understanding from April 2010 that led to the introduction of a system of lending at preferential interest rates secured by SMEs' receivables from exports covered by trade insurance.

#### **12. Support for SMEs in Okinawa (fiscal investment and loan program)**

Regarding the facilitation of financing and provision of other support for SMEs in Okinawa delivered via the Okinawa Development Finance Corporation (ODFC), the corporation operated the same range of programs as the JFC and also introduced its own system of lending tailored to meet the specific needs of businesses in Okinawa.

## **Section 2 Strengthening of financial underpinnings**

In order to support SMEs' varied and dynamic growth and development, fine-grained tax measures were implemented to strengthen their financial underpinnings.

Measures were also taken to help strengthen SMEs' financial underpinnings and raise their productivity as part of revisions to the tax system in fiscal 2010.

### **● Specific measures**

#### **1. Lowering of reduced tax rate for SMEs (taxation scheme)**

The reduced rate of corporation tax payable by small and medium corporations (applicable to up to ¥8 million of annual income) has been temporarily lowered from 22% to 18%.

#### **2. SME investment promotion tax system (taxation scheme)**

The period of effect of a 30% special depreciation

or a 7% tax credit for the base price of purchase of certain machinery or equipment by SMEs and similar businesses has been extended by two years through to March 31, 2012.

#### **3. Special provision for SMEs' inclusion in charges against revenue of acquisition cost of petty sum depreciable assets (taxation scheme)**

The period of effect of allowance of SMEs' inclusion in full (up to a total maximum of ¥3 million per year) of depreciable assets worth less than ¥300,000 in charges against revenue has been extended by two years through March 31, 2012.

#### **4. Special exemption from inclusion from charges against revenue of entertainment and social expenses, etc.**

Small and medium corporations are allowed to include 90% of entertainment and social expenses, etc., up to a maximum of ¥6 million, in charges against revenue. The period of effect of this measure has been extended by two years through March 31, 2012.

## **Section 3 Measures to make subcontracting transactions fair and proper**

In order to ensure that subcontracting transactions are conducted in a fair and proper manner so that an unreasonable burden does not fall on small and medium subcontractors owing to their relatively weak position compared with parent enterprises, small and medium subcontractors need to be protected by clamping down on unfair subcontracting transactions and preventing violations of the law from occurring.

Working in collaboration with the Fair Trade Commission (FTC), therefore, action was taken in fiscal 2010 to strictly enforce the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (Subcontractor Payment Act) through document investigations, etc., strengthen the advice service provided by Subcontracting Help Centers, and raise awareness of guidelines on fair and proper subcontracting transactions.

### **● Specific measures**

#### **1. Stricter enforcement of the Subcontractor Payment Act**

The Subcontractor Payment Act was enforced through close collaboration between the FTC and the SME Agency in order to ensure that subcontracting transactions are conducted in a fair and proper manner and protect the interests of subcontractors. In fiscal 2010, the FTC and the SME Agency conducted document investigations and other investigations of businesses.

Rigorous legal compliance by parent businesses was additionally encouraged by such means as special

questioning of parent businesses that have been instructed to make improvements at least twice in the past.

Additionally, an official notice signed jointly by the Minister of Economy, Trade and Industry and the Chairman of the FTC requesting the fair and proper

conduct of subcontracting transactions was sent on November 15, 2010, to the representative directors of 34,583 parent businesses and the representatives of 651 related business associations in order to ensure that all relevant parties were properly informed of the above act.

### (FTC)

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Document investigations (of parent businesses)	38,046	36,342	34,181
Document investigations (of subcontracting businesses)	210,166	201,005	160,230
Advice	15	15	15
Guidance	4,226	3,590	2,949
Number of parent businesses that refunded reductions made to subcontracting proceeds	98	61	50
Number of subcontracting businesses that received refunds for reductions	4,356	2,160	2,022
Total amount of refunded reductions	Approx. ¥1,031 million	Approx. ¥481 million	Approx. ¥2,951 million
Number of parent businesses that paid interest on overdue subcontracting proceeds	89	61	39
Number of subcontracting businesses that received payments of overdue interest	3,420	2,737	1,456
Total amount of overdue interest paid	Approx. ¥282 million	Approx. ¥108 million	Approx. ¥235 million

### (SME Agency)

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Document investigations (of parent businesses)	44,702	39,624	27,743
Document investigations (of subcontracting businesses)	204,886	189,764	174,410
On-the-spot investigations	1,224	1,052	1,117
Instructions to make improvements	1,143	977	1,004
Warnings issued	11,770	8,720	8,329
Instructions to pay refunds	396	257	270
Amount of refunds	Approx. ¥1,021 million	Approx. ¥405 million	Approx. ¥1,245 million
Requests for action by FTC	4	2	4

## 2. Strengthening of consultation system and raising of awareness of importance of making subcontracting fairer (fiscal 2010 budget: included in ¥710 million)

Consultation services were provided regarding SME transactions by the 48 Subcontracting Help Centers set up throughout Japan (4,468 consultations and 646 free legal consultations in fiscal 2010).

Courses on how to prevent the occurrence of violations of the Subcontracting Proceeds Act were also held. 124 courses were held for procurement managers and 50 courses were held for managers at parent businesses to further raise awareness of the Act on the Promotion of Subcontracting Small and Medium-sized Enterprise

(“Subcontracting Promotion Act”), while symposiums were held at eight venues across Japan to showcase instances of best practice at parent businesses and urge wider compliance with the Subcontracting Promotion Act.

Guidelines for the development of good business relations between parent businesses and subcontractors (“Guidelines for the Promotion of Fair Subcontracting Practices”) were newly established in four industries (iron and steel, chemicals, paper and paper products, and printing) on June 30, 2010, existing guidelines followed in three industries (advertising, information and communications equipment, and construction



material and housing equipment) were revised, and 243 information sessions were held to explain the guidelines in 15 industries.

### 3. Development of small and medium subcontractors

The following projects were implemented to promote the development of small and medium subcontractors:

- (1) Market development assistance through subcontracting trade mediation and organization of business negotiation events (fiscal 2010 budget: included in ¥710 million)

Information on placement and receipt of business-to-business orders involving outsourcing of manufacturing and similar services meeting enterprises' own requirements (regarding, e.g., desired industries, facilities, and technologies) was provided via the "Business Matching Station" (BMS) website (<http://biz-match-station.zenkyo.or.jp/>) to small and medium subcontractors seeking to acquire new business partners. BMS had 23,052 registered users as of the end of March 2010. Emergency wide-area business negotiation events were in addition held at four venues to assist enterprises' development of new markets over a wider geographical area.

- (2) Requesting of consideration toward small and medium subcontractors (fiscal 2010 budget: included in ¥710 million)

Courses and other events were held to raise awareness of the general standards that subcontractors and parent businesses are expected to follow under the Subcontracting Promotion Act. An official notice requesting that consideration be shown to subcontractors was also issued to the representatives of 750 relevant business associations on November 15, 2010.

## Section 4 Support for business rehabilitations and successions

In order to help SMEs turn their businesses around, SME revitalization support councils have been established in chambers of commerce and industry and similar organizations in each prefecture under the Act on Special Measures for Industrial Revitalization and Innovation ("Act on Special Measures for Industrial Revitalization"). These are permanently staffed by experienced experts in business rehabilitation, who handle queries from SMEs about business rehabilitation and advise on solutions. When it is considered that the SMEs requesting advice need to radically overhaul their finances and operations in order to successfully revitalize, support teams consisting of these experts alongside outside experts, such as SME consultants, certified public accountants, and attorneys, provide support by, for example, conducting surveys of their finances and operations ("due diligence") and

assisting in the formulation of rehabilitation plans and coordination with financial institutions.

In order to maintain vitality and secure employment in regional economies, support was provided under the Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises ("Management Succession Facilitation Act") through special exemptions to the Civil Code, financial assistance, and tax measures, and comprehensive support was provided for SME business successions by, among other means, raising awareness of the business succession system.

### ● Specific measures

#### 1. SME revitalization support councils (fiscal 2010 budget: ¥5.01 billion)

The SME revitalization support councils established in chambers of commerce and industry and similar organizations in each prefecture provided financially troubled SMEs with profitable operations with over-the-counter advice on how to solve their problems and assistance with formulating rehabilitation plans (including coordination with financial institutions and other interested parties). In fiscal 2010, 1,929 requests for advice were received and 364 rehabilitation plans were developed. The corresponding numbers for the period from the program's inception to the end of March 2010 were 22,140 and 2,945.

#### 2. Plans for SME rehabilitation through succession ("second company" method)

Special measures to assist with business successions, financial assistance, and measures to reduce the tax burden were implemented to assist enterprises engaging in business successions in accordance with plans for SME rehabilitation through succession approved under the Act on Special Measures for Industrial Revitalization.

#### 3. SME revitalization funds

In order to deliver the funds needed by SMEs to implement their rehabilitation plans and provide them with management support, the Organization for Small and Medium Enterprises and Regional Innovation, Japan ("SMRJ"), regional financial institutions, and credit guarantee corporations acted in unison to set up regional funds to assist local SMEs' rehabilitation efforts and national funds to assist SMEs' rehabilitation efforts over a wide area. As of the end of fiscal 2010, 22 such funds had been created since the program's inception in March 2003, and the total value of these funds came to ¥79.4 billion. 156 enterprises had made investments worth approximately ¥32.8 billion funded by these rehabilitation funds.

#### 4. Comprehensive support under the Management Succession Facilitation Act

The Management Succession Facilitation Act

incorporates comprehensive support for business successions involving SMEs, including special exemptions to the Civil Code concerning legally secured portions of successions, and confirmation to qualify for these special exemptions had been granted by the Minister of Economy, Trade and Industry for 29 successions as of the end of March 2011.

**5. Support to facilitate business successions (SMRJ subsidy program)**

Support networks for providing extensive advanced support for SME business successions have been developed throughout Japan, and various events have been held to provide training for SME support providers and raise SME proprietors' awareness through forums.

**6. Business continuity funds**

In order to help SMEs with business succession problems to raise funds, SMRJ teamed with private investment companies and regional financial institutions to create business continuity funds. Six such funds were established between October 2006 and June 2010. These have invested a total of ¥24.3 billion in 14 enterprises. Note that these funds were reorganized on July 15, 2010, to form what are now called "SME growth support funds."

**7. Business succession loans (fiscal investment and loan program)**

The JFC provided low-interest loans to SMEs and representatives requiring funds (for purchase of shares or business assets, etc.) for business successions.

**8. System of deferral of payment of inheritance tax and gift tax on non-listed shares (business succession taxation scheme) (taxation scheme)**

The business succession taxation scheme is designed to assist successors' acquisition from predecessors of shares and other assets in non-listed enterprises approved by the Minister of Economy, Trade and Industry, whether through inheritance, gift, or bequest, and it works by allowing the deferral of payment of inheritance tax and gift tax on and exemption from payment of the amount of tax under a grace period in certain circumstances (e.g., death of the successor). Approvals to qualify for this scheme commenced in fiscal 2009, and as the end of March 2011, 286 approvals had been granted for inheritance tax and 96 approvals had been made for gift tax.

## **Section 5 Human resource and employment measures**

The employment conditions faced by young people is severe and a mismatch has arisen between supply and demand, with SMEs that are eager to hire struggling

to find young human resources and the proportion of university students expecting to graduate that had received employment offers as of December 1, 2010, at an all-time low. Several programs have therefore been implemented to eliminate this mismatch, including the organization of internships at SMEs, provision of online matching support, and identification of SMEs that are eager to hire at Job Cafés.

Training programs have also been organized to develop core workers, other human resources of immediate use to SMEs, and individuals capable of delivering support to SMEs.

Employment adjustment subsidies and SME emergency employment stabilization subsidies targeted specifically at SMEs were provided to employers who seek to maintain employment of workers by such means or temporary layoffs or transfers in order to prevent unemployment and stabilize employment where SMEs have to downsize due to fluctuations in business conditions or other economic factors.

### ● Specific measures

**1. New Graduate Employment Support Project (contingency reserve: ¥9.81 billion)**

In order to help SMEs to hire human resources, raise labor productivity, enhance competitiveness, and expand employment of new graduates, practical internships (usually for a period of six months) were organized at SMEs for new graduates who had yet to find employment. In the first half of fiscal 2010, 4,988 people took internships and 1,831 found employment (representing a 36.7% transition-to-work rate). Similar internships have also been provided since the latter half of fiscal 2010 for persons graduating within the preceding three years and yet to find employment.

**2. SME hiring enhancement programs ("Dream Match Project") (contingency reserve: ¥870 million)**

The following programs were implemented to match new graduates and other job seekers with SMEs and other prospective employers.

(1) Provision of matching opportunities for SMEs and new graduates, etc. on the Internet. When an enterprise registers a job advert, information on the position is sent to student members. Student members are also referred to enterprises and interviews arranged.

(2) A total of 14 job fairs were held in seven cities across Japan (Sapporo, Sendai, Tokyo, Nagoya, Osaka, Hiroshima, and Fukuoka). These gave enterprises the opportunity to not only advertise themselves to students at their booths, but also to select job seekers directly during these events.

This scheme has 49,073 members and involves 5,570 enterprises. It has so far generated 2,284 job offers (as of March 25, 2011).

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3. **Job Cafés Project (fiscal 2010 budget: ¥500 million; fiscal 2010 supplementary budget: ¥980 million)**  
Support was provided for SME hiring support through Job Cafés in order to eliminate the mismatch of employment supply and demand. In METI-designed support regions, this project had attracted 788,000 users and 95,000 new registrants, and it had produced 41,000 successful job finders by February 2011.
4. **Joint job fairs (contingency reserve: ¥300 million)**  
In order to create opportunities for SMEs seeking new young employees and for new graduates and other job seekers who have yet to receive job offers, 431 joint job fairs were held in fiscal 2010 in partnership with local SMEs and universities.
5. **Local Industry Discovery Tours (contingency reserve: ¥100 million)**  
In order to transform perceptions and foster employment, opportunities were created for students and other young people around Japan to discover the attractions of individual industries suffering employment mismatches, such as skilled manufacturing, agriculture, and long-term care services.
6. **Practical training programs (contingency reserve: ¥890 million; fiscal 2010 supplementary budget: ¥500 million)**  
In order to cultivate core human resources and skilled workers of immediate use to SMEs, practical training was provided in infrastructure and growth fields, such as skilled manufacturing and agricultural-commercial-industrial collaborations.
7. **SME Manufacturing Human Resource Development Program (fiscal 2010: ¥90 million)**  
In order to assist the development and hiring of the skilled workers required by small and medium manufacturers, support was provided through programs undertaken collaboratively by industry, technical high schools, and the authorities in regions throughout Japan to enhance practical training at technical high schools and other educational facilities by dispatching engineers from companies to teach in schools and providing factory-floor training for students and teachers. In fiscal 2010, the programs in six regions around Japan that were selected as model programs in fiscal 2008 continued to be implemented.
8. **Human resource development at SME Universities (SMRJ subsidy program)**  
Training was provided to improve the abilities of SME support personnel at nine SME Universities around Japan. This was accompanied by the provision of training for SME proprietors, managers, and people in similar positions designed to lead directly to the solution of business challenges. In fiscal 2010, training was provided on 966 occasions for a total of 28,415 SMEs and SME support staff.
9. **Support for development and employment of next-generation high-tech human resources at SMEs, etc. (fiscal 2010 budget: ¥370 million)**  
In order to assist the development of next-generation industries and create jobs in the regions, support was provided for collaborative initiatives undertaken by universities, public research institutes, local governments, SMEs, and others to employ and train the high-tech human resources to lead the development of next-generation industries and promote their employment at SMEs. 13 initiatives involving the provision of training to 58 individuals were selected in fiscal 2010.
10. **Tax system to encourage investment in human resources (taxation scheme)**  
The purpose of this scheme is to accelerate SMEs' investment in human resources by providing tax credits worth 8%-12% of an SME's total education and training expenditure where the rate of such expenditure to personnel expenses in the business year concerned is at least 0.15%.
11. **Development of program for training and evaluation private coordinators for career education (fiscal 2010 budget: ¥110 million)**  
In order to provide careers education leveraging ideas and training in the private sector (such as by providing opportunities for work experience at local SMEs), the number of regions selected for trial training and assessment of coordinators acting as intermediaries between schools and enterprises was expanded from nine to 14. This was accompanied in March 2011 by the establishment, led by the private sector, of the Careers Education Coordinator Network Association.
12. **Maintenance of workers' employment (fiscal 2010 budget: ¥725.70 billion)**  
In order to help prevent unemployment and stabilize employment when employers have to downsize due to fluctuations in business conditions, changes in industrial structure, and other economic reasons, employment adjustment subsidies (for large employers) and emergency subsidies to stabilize employment at SMEs (for small and medium employers) were provided as means of assisting employers that temporarily laid off, trained, or seconded workers in their employment. In view of the economic situation and employment conditions, output requirements were eased and further revisions were made in fiscal 2010. Active steps have also been taken to prevent fraudulent receipt of these subsidies by such means as interviewing workers who have been temporarily laid off and strengthening on-the-spot surveys of business

establishments. Applications for subsidies made since November 1, 2010, have also been more rigorously checked for fraud by, for example, publishing the names of employers that have committed fraud. 55,187 business establishments have filed plans for temporary layoffs, etc. for receipt of employment adjustment subsidies and emergency subsidies to stabilize employment at SMEs, affecting a total of 1,173,486 jobs (as of March 2011).

**13. Support for creation of new employment opportunities leveraging SMEs' dynamism (fiscal 2010 budget: ¥4.19 billion)**

Support was provided for the hiring of human resources and development of attractive working environments by SMEs playing a leading role in job creation. Such support was provided by, for example, paying subsidies to SMEs that take on more workers to establish startups, enter other industries, or improve productivity, and also to associations of SMEs that take action to improve workforce management.

**14. SME startup subsidies for regional revitalization (fiscal 2010 budget: ¥760 million)**

In order to help create new jobs in the regions, SME startup subsidies for regional revitalization were provided. These are subsidies to help cover the cost of startups and employment of additional workers, and are paid to employers that start up businesses and employ additional workers in high priority fields in regions where the improvement in employment and unemployment conditions has been weak.

## Section 6 Measures to stabilize business

In order to stabilize the business of SMEs, the following two mutual relief systems were steadily administered and promoted: the SME Mutual Relief System for the Prevention of Bankruptcies, which lends mutual relief funds to prevent chain bankruptcies of SMEs, and the Small Enterprise Mutual Relief System, which provides mutual relief funds to the sole proprietors and corporate directors of small enterprises in the event of their closing down or changing of business.

As a disaster control and anti-bankruptcy measure, action was taken to assist SMEs in three prefectures (Miyazaki, Kumamoto, and Kagoshima) that were affected by the outbreak of foot-and-mouth disease in Miyazaki Prefecture in April 2010. This consisted of the establishment of special consultation centers at chambers of commerce and industry, prefectural federations of societies of commerce and industry, prefectural federations of small business associations, public financial institutions, and similar agencies in the affected prefectures, and the provision of financial assistance in the form of safety net lending and similar loans. In addition, regarding the Foot-and-Mouth Small and Medium Enterprise Support Fund

established in Miyazaki Prefecture, support was provided using SMRJ's Disaster Loan Program.

● **Specific measures**

**1. Mutual Relief System for the Prevention of Bankruptcies of Small and Medium Enterprises (Business Safety Mutual Relief System) (SMRJ subsidy program)**

The Mutual Relief System for the Prevention of Bankruptcies of Small and Medium Enterprises is a system for the provision of interest-free, unsecured, unguaranteed mutual relief funds to SMEs, determined according to the amount of past contributions made, in the case of difficulty collecting accounts receivable due to the bankruptcy of a business partner (up to a maximum of ¥32 million). The system had 300,000 registered members as of the end of March 2011, and the number of new enrollees and value of new loans between April 2010 and March 2011 were respectively 31,000 and ¥19.5 billion. Under the Act for Partial Revision of the Act on Mutual Relief System for the Prevention of Bankruptcies of Small and Medium-sized Enterprises (Act No. 25, 2010) passed during the 174th ordinary session of the Diet and promulgated on April 21, 2010, some bankruptcy proceedings outside the legal framework were added to the grounds for receipt of mutual relief funds on July 1, 2010.

**2. Mutual Relief Scheme for Small-scale Enterprises (SMRJ subsidy program)**

Under the Mutual Relief Scheme for Small-scale Enterprises, sole proprietors and corporate directors of small enterprises deposit contributions that allow them to receive mutual relief funds when they close down or retire. It is, in other words, a "retirement plan" for proprietors of small enterprises. 1,209,000 persons were enrolled in the system as of the end of March 2011, and there were 64,000 new enrollees between April 2010 and March 2011. The scope of enrollees in the mutual aid system was expanded to include "joint proprietors," including spouses of sole proprietors and successors, following the entry into effect on January 1, 2011, of the Act for Partial Revision of the Small Enterprise Mutual Relief Projects Act (Act No. 24, 2010) passed during the 174th ordinary session of the Diet and promulgated on April 21, 2010.

**3. Special Business Stability Advice Centers (fiscal 2010 budget: included in ¥4.35 billion)**

In order to help solve the various management problems of SMEs facing business crises, support was provided for guidance programs operated by the Japan Chamber of Commerce and Industry and the Central Federation of Societies of Commerce and Industry to facilitate the provision of business advice in a wide range of fields on the prevention of bankruptcies by the special business stability advice centers established in key

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chambers of commerce and industry and prefectural federations of societies of commerce and industry across the country.

#### 4. Promotion of wider adoption of BCPs by SMEs

A compilation of the forms of action taken by SMEs following disasters and their effects was prepared and distributed to serve as a resource to help SMEs develop their own business continuity plans (BCPs), which

detail in advance the actions to take to minimize the disruption of business in the event of a disaster and to restore operations as quickly as possible.

Low-interest loans were also provided by the JFC (SME Unit) to fund the development of disaster prevention facilities in accordance with BCPs formulated by SMEs. 82 such loans worth a total of ¥9.0 billion were provided between April 2010 and March 2011.

## Chapter 2 Supporting the growth of motivated SMEs

### Section 1 Support for development of operations overseas

If SMEs are to develop in Japan, they urgently need to enter Asia's rapidly growing markets to tap into demand there. Growing economic globalization is at the same time rendering the distinctions between domestic and international business increasingly redundant, making it important that SMEs develop their operations overseas in order to respond to international competition. It was in view of these circumstances that the SME Overseas Development Support Council, chaired by the Minister of Economy, Trade and Industry, was established in October 2010 to coordinate the development by the Ministry of Agriculture, Forestry and Fisheries (MAFF), Financial Services Agency (FSA), Ministry of Finance (MOF), and other related agencies of a fine-grained system of support delivered principally through the Regional Bureaus of Economy, Trade and Industry in each region. Other forms of support were also provided, including the provision of information on overseas markets, assistance with exhibition at trade fairs, and organization of business negotiation events by support agencies such as the Japan External Trade Organization ("JETRO") and SMRJ.

#### ● Specific measures

##### 1. Establishment of the SME Overseas Development Support Council

To enhance the provision of support to SMEs seeking to develop operations overseas, the SME Overseas Development Support Council, chaired by the Minister of Economy, Trade and Industry, was established in October 2010 to coordinate the development by MAFF and other related agencies of a fine-grained system of support delivered principally by the Regional Bureaus of Economy, Trade and Industry in each region.

##### 2. SME Overseas Development Support Program (subsidies for JETRO/SMRJ) (fiscal 2010 budget: ¥2.30 billion; contingency reserve: ¥400 million; fiscal 2010 supplementary budget: ¥1.29 billion)

JETRO and SMRJ, which form the nucleus of the SME Overseas Development Support Council, collaborated on the provision of support to SMEs seeking to

develop operations overseas. More specifically, SMRJ assisted inexperienced SMEs with preparations for developing operations overseas (in the form of assistance with the formulation of overseas development strategy and localization of products) in order to expand the number of SMEs interested in developing operations overseas, and also assisted at trade fairs within Japan that are visited by large numbers of foreign buyers. JETRO, on the other hand, created greater opportunities for business matching by using its extensive networks to help SMEs exhibit at overseas trade fairs and invite more foreign buyers to events in Japan. At the same time, it provided various forms of overseas market development support suited to SMEs' support needs, such as by providing various information on overseas markets and offering assistance in host markets.

##### 3. JAPAN Brand Development Assistance Program (fiscal 2010 budget: ¥1.08 billion)

Support was provided for projects undertaken jointly by multiple SMEs to develop strategies tailored to their own strengths and weaknesses in materials, technologies, etc. and to develop products and exhibit at overseas trade fairs in accordance with these strategies, and further support was provided to assist SMEs' development of overseas markets.

A national secretariat was established to provide strategic support for the development of overseas markets for "JAPAN Brand" products and services. This coordinated strategic promotional activities (including dissemination of information and publicity) and assisted matching with buyers, test marketing, and similar activities. In fiscal 2010, 83 projects were selected.

##### 4. Hosting of APEC SME Ministerial Meeting

The 17th APEC SME Ministerial, chaired by Japan, was held in Gifu City on October 2-3, 2010. At this meeting, an accord was reached regarding the importance of expanding access to global markets, and a joint ministerial declaration was made incorporating the Gifu Initiative comprising the following three key elements: (1) global implementation of the "one village, one product" model; (2) development of a

network of information on exhibitions in the region to facilitate SMEs' participation in particular territories; and (3) the promotion of exchanges between SME proprietors and expansion of international contacts at the personal level.

**5. Provision of support for SMEs' establishment of overseas operations by the Japan Chamber of Commerce and Industry (fiscal 2010 budget: ¥50 million)**

In order to help ameliorate the problems faced overseas by SMEs, host governments have been urged to make improvements in six locations overseas. In fiscal 2010, 107 requests were made and 21 improvements were observed. Additionally, the APEC SME Summit was held in Yokohama on November 11, 2010, and this was attended by 600 representatives from 25 countries and regions (including 180 participants from overseas).

**6. Overseas information services (fiscal 2010 budget: ¥70 million)**

In order to facilitate Japanese SMEs' maintenance of trade and economic relations, information was gathered, surveys were conducted, and the results were made widely available.

**7. Program for promoting smooth international operations of SMEs (fiscal 2010 budget: ¥180 million)**

In order to facilitate Japanese SMEs' development of operations overseas, especially in manufacturing, assistance was provided with the development of human resources, including the dispatch of experts and provision of training to raise the technological capabilities and business management abilities of Japanese enterprises' overseas subsidiaries.

**8. Funding to develop operations overseas (fiscal investment and loan program)**

Loans were provided by the JFC to assist SMEs' financing of their development of operations overseas. Responding to SMEs' growing need for such funding in fiscal 2010, the separate ceiling on lending was raised (from ¥250 million to ¥720 million), and a total of ¥11.89 billion worth of loans were made in fiscal 2010.

**9. Reduction and waiver of fees for credit checks of SMEs using trade insurance**

In order to expand SMEs' use of trade insurance, arrangements for NEXI to bear the cost of provision of credit information on business partners required when using trade insurance continued (up to a maximum of three times per company), in effect since October 2008, were maintained. In fiscal 2010, 151 applications were received from 105 enterprises.

**10. Activities to expand and publicize use of trade insurance by SMEs (seminars, consultation events, etc.)**

Seminars and face-to-face consultation events were hosted by NEXI in seven locations around Japan in order to promote use of trade insurance by SMEs. In addition, the Tokyo Chamber of Commerce and Industry and NEXI entered a memorandum on cooperation to popularize and raise awareness of trade insurance. NEXI also provided instructors for seminars hosted by other organizations working with SMEs in order to popularize and raise awareness of trade insurance. (Instructors were sent to 18 events in fiscal 2010.)

**11. Sponsorship of programs to promote voluntary administration of security export control (fiscal 2010 budget: ¥110 million)**

In order to improve the effectiveness of management of export of goods and provision of technology subject to security concerns under the Foreign Exchange and Foreign Trade Act, support was provided for the development of voluntary administration structures for security export control at SMEs that supply products and technologies that could be used to develop weapons of mass destruction, etc. through the dispatch of experts (149 events in fiscal 2010), organization of seminars (33 times in fiscal 2010), and performance of investigative research (with effective responses of 1,224 enterprises in fiscal 2010).

**12. Promotion of BOP business (fiscal 2010: included in ¥2.81 billion)**

Attention was given to promoting the development of BOP business, which is expected to play an important role in resolving the various social problems faced in host countries (such as the provision of water, daily necessities, services, etc. and reduction of poverty, etc.) in a sustainable manner to individuals on low incomes in developing countries (i.e., those on annual incomes of not more than US\$3,000, who account for around 70% of the world's total population and number four billion). More specifically, support was provided for information exchange activities undertaken jointly by support agencies, private enterprises, NGOs, and other organizations, the establishment, operation, and trialing of BOP business support centers, and the performance of R&D.

**13. Other support for development of operations overseas**

JETRO and Shoko Chukin together established "SME Overseas Development Support Desks" at branches in Japan and overseas. The Japan Bank for International Cooperation, JETRO, regional financial institutions, and similar agencies also teamed up to establish support arrangements to enhance arrangements to assist entry into markets in Asia and other regions

by mid-tier enterprises and SMEs. These consist, among other things, of the provision of information, advice, and financial support through the dispatch of staff from Japanese financial institutions to JETRO's operations in Japan and overseas and the Japan desks of overseas financial institutions. Personnel are scheduled to be sent to JETRO's offices in overseas locations including China, Korea, Thailand, Malaysia, Vietnam, India, and Singapore.

## **Section 2 Support for startups, changes of business, and development of new business**

In order to promote startups and changes of business, support was provided by public financial institutions and SMRJ invested in private-sector investment funds. Use also continued to be made of the angel tax system to stimulate investment in newly founded enterprises by individual investors. In particular, the criteria for investment in funds by SMRJ were eased in July 2010 in order to enable more targeted, flexible investment.

Because of the contribution made to enhancing Japan's competitiveness by SMEs' entry into new fields of business, support was provided for SMEs' development of new products and services in accordance with legislation including the Act on Promotion of Business Activities by Collaboration Between Small and Medium Sized Enterprise Operators and Operators of Agriculture, Forestry and Fishery ("Agricultural-Commercial-Industrial Collaboration Promotion Act").

Additional support was provided for the development of human resources, etc. to support market development (such as through exhibitions for SMEs and the provision of opportunities for business talks with buyers) and initiatives pursued through agricultural-commercial-industrial collaborations.

### **● Specific measures**

#### **1. New Startup Loan Program (fiscal investment and loan program)**

Unsecured, unguaranteed loans worth up to ¥10 million were provided by the JFC to businesses embarking on new ventures and businesses that have newly commenced operations. In fiscal 2010, 10,522 loans worth a total of ¥35.8 billion were provided. Between the program's inception in fiscal 2001 and the end of March 2011, 83,671 loans worth a total of ¥278.1 billion had been made.

#### **2. Founders' guarantees (fiscal 2010 budget: included in ¥3.90 billion)**

The purpose of this program is to boost lending to startup entrepreneurs by private financial institutions through the provision of guarantees by credit guarantee corporations to individuals who are starting up in business or who started up in business less than

five years ago. In fiscal 2010, 14,635 guarantees worth a total of ¥78.5 billion were provided.

#### **3. Loan Program for Supporting Female, Young, and Senior Entrepreneurs (fiscal investment and loan program)**

The purpose of this program is to support the creation and development of new operations by a variety of businesses through the provision of low-interest loans by the JFC (Micro Business and Individual Unit/SME Unit) to women, young people under the age of 30, and older people aged 55 or older who have entered business within around the past five years. Between the program's inception in fiscal 1999 and the end of March 2011, 90,222 loans worth a total of ¥450.8 billion had been made.

#### **4. Fund Investment Program (Startup Support Fund, SME Growth Support Fund)**

The creation of investment funds operated by private-sector investment companies has been promoted through investment by SMRJ (up to one half of the total value of the fund concerned) in order to expand opportunities for investment in ventures (SMEs) at the startup or early growth stage and in SMEs pursuing growth through the development of new business. The Fund Investment Program was reorganized and investment requirements were revised in July 2010 in order to enable more targeted and flexible action to promote the further formation of funds to assist startups, changes of business, and similar initiatives by ventures and SMEs.

85 Startup Support Funds have been created, resulting in cumulative investment of ¥99.5 billion in 2,160 enterprises (as of the end of March 2011). 33 SME Growth Support Funds have been created, resulting in cumulative investment of ¥36.7 billion in 377 enterprises (as of the end of March 2011).

#### **5. Angel tax system (taxation scheme)**

The purpose of this system is to assist the financing of newly founded SMEs and similar businesses by individual investors ("angels"), and it works by granting income tax rebates to individual investors at the time of their investments and when they transfer their shares. Between the system's inception in 1997 and the end of March 2011, ¥6.85 billion was invested in 280 enterprises.

#### **6. New Business Activity Promotion Support Program (fiscal 2010 budget: ¥4.25 billion; fiscal 2010 supplementary budget: ¥1.99 billion)**

The following programs were implemented to support the development of new business by SMEs.

##### **(1) New Partnership Support Program**

Comprehensive support (in the form of subsidies, loans, guarantees, tax exemptions, etc.) was

provided for approved business plans to develop or distribute new products and services created through the effective combination of business resources (technologies, outlets, etc.) resulting from partnerships between SMEs in different fields under the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises (SME New Business Activity Promotion Act). 741 business plans had been officially approved under the program as of the end of March 2011.

(2) **Support for development of new business using regional resources**

Comprehensive support (in the form of subsidies, loans, guarantees, special tax exemptions, etc.) was provided for approved business plans to develop or distribute new products and services created using outstanding regional resources (local technologies, regional agricultural/forestry/fishery products, traditional culture, etc.) under the Act on Promotion of Business Activities by Small and Medium-sized Enterprises Utilizing Resources Derived from Local Industries ("Regional Resource Utilization Promotion Act"). 907 regional resources utilization business plans formulated by SMEs to develop and bring to market new products or services using regional resources had been approved as of the end of March 2011.

(3) **Agricultural-Commercial-Industrial Collaboration Promotion Support Program**

Comprehensive support (in the form of subsidies, loans, guarantees, special tax exemptions, etc.) was provided for approved business plans to develop, etc. new products and services created through organic partnerships between SMEs and agricultural, forestry, and fishery businesses to make effective use of their respective business resources under the Agricultural-Commercial-Industrial Collaboration Promotion Act. 434 business plans had been officially approved by the end of March 2011.

**7. Management Innovation Support Program**

Support was provided for new business activities undertaken by SMEs by providing support through mechanisms such as low-interest loan programs and special tax exemptions for the implementation of approved management innovation plans prepared by SMEs planning to engage in new business activities to improve their business performance. 45,415 such plans had been officially approved since the program's inception as of the end of March 2011.

**8. Startup classes and management innovation courses (fiscal 2010 budget: included in ¥4.35 billion)**

Intensive "startup classes" of around 30 hours in length were held for individuals thinking of starting

up in business in order to equip them with the practical skills required to do so. "Management innovation classes" were also held for proprietors pursuing the development of new business operations, young successors, and other entrepreneurs to help them acquire knowledge and know-how about business strategy, etc. In fiscal 2010, startup classes and management innovation courses were held in 235 and 354 locations respectively around Japan at associations and chambers of commerce and industry, and were attended by a total of 7,441 and 7,806 participants.

**9. Support for creation of new businesses (SMRJ subsidy program)**

Close integrated support was provided to SMEs and other entities engaging in new business within the framework laid down by the Regional Resource Utilization Promotion Act, Agricultural-Commercial-Industrial Collaboration Promotion Act, and New Business Activity Promotion Act by experts in marketing and other areas of business stationed at SMRJ's 10 branches and offices across Japan.

In fiscal 2010, 19,395 support cases were dealt with. These consisted of 2,235 support desk consultations at support secretariats, 3,470 cases of assistance with polishing up businesses' plans for approval, and 13,690 cases of follow-up support provided to assist with market development, etc. (as of the end of March 2011).

**10. Programs to support nationwide development of new businesses by small enterprises (fiscal 2010 budget: included in ¥4.35 billion)**

In order to promote the development of new business targeting national markets by local small enterprises, wide-ranging support was provided for initiatives (45 investigative research projects and 196 actual programs) undertaken by associations and chambers of commerce and industry and similar organizations in cooperation with small enterprises to develop new products using local resources, cultivate markets nationwide, and develop tourism resources. In fiscal 2010, support was provided for 37 intensive projects held for fixed periods to attract visitors and customers by raising the profile of regions' all-round attractions (including local specialties, natural environment, culture, and history) newly undertaken jointly by associations and chambers of commerce and industry with local businesses.

**11. Support for the provision of opportunities to develop markets for local produce (fiscal 2010 budget: ¥120 million)**

In addition to promoting the further development of markets for products, support was provided to enable SMEs to develop their ability to cultivate markets for themselves. In concrete terms, exhibitions and



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business negotiation events were held and sales space was provided in department stores and other outlets to create opportunities for business talks between SMEs and buyers, provide more opportunities for SMEs to showcase their products to consumers, and enable SMEs to accumulate know-how by experience at first-hand the sales channels typically used by department stores and similar outlets.

**12. Program to promote the creation of new local growth industries (fiscal 2010: ¥1.39 billion)**

In order to promote the development of new growth industry clusters leveraging regional strengths, initiatives including business matchmaking and experimental transaction programs were implemented. 70 such initiatives were selected in fiscal 2010.

**13. Support for cultivation of markets through exhibitions, business negotiation events, and other events (SMRJ subsidy program)**

Support was provided for the development and expansion of markets for products and services developed by agricultural-commercial-industrial collaborations or using local resources and undiscovered attractive regional products by organizing exhibitions, business negotiation events, and other such events. The Small and Medium Enterprise Fair 2010 in Tokyo (held concurrently with the Venture Fair) attracted 621 exhibitors and 47,004 visitors. Nippon Mono Ichi drew 50 exhibitors and some 10,200 visitors.

**14. Development of human resources by agricultural-commercial-industrial collaborations, etc. (contingency reserve: included in ¥890 million; fiscal 2010 supplementary budget: included in ¥500 million)**

Treating every stage from the production of agricultural, forestry, and fishery produce to processing, distribution, and the development of markets to meet consumer needs as comprising a single business cycle, classroom-based training in the knowledge required for agricultural-commercial-industrial collaborations, practical training, and case study-based instruction were provided to train the human resources required to strategically expand use of agricultural-commercial-industrial collaborations. In fiscal 2010, 98 organizations around the country provided training for around 4,400 participants (as of the end of March 2011).

**15. Market Development Coordination Program (SMRJ subsidy program)**

SMEs with management innovation plans approved under the New Business Activity Promotion Act were helped to translate their plans into the development of new markets by market development experts with experience of working at trading companies, manufacturers, etc. (“market development coordinators”)

assigned to SMRJ. Some of the specific forms of support provided included the introduction of newly developed products and services to trading companies and other enterprises and assistance with activities ranging from the development of marketing plans by enterprises with new products and services to test marketing targeted at enterprises in likely markets in the Tokyo metropolitan and Kinki regions. By the end of March 2011, a total of 2,084 consultations had been dealt with and assistance provided for 638 cases.

**16. Market Navigator Startup Support Program (SMRJ subsidy program)**

Former business people and other individuals with extensive networks of contacts are registered with SMRJ as “market navigators” and opportunities provided to match these navigators with SMEs in order to introduce them to potential outlets and give them access to distribution services. “Matching Presentations” were held by SMRJ and market navigators were dispatched to matching events held by prefectural support centers for SMEs, resulting in the assistance of 105 enterprises in fiscal 2010.

**17. Support to encourage enterprises to locate in the regions (fiscal 2010 budget: ¥3.77 billion; contingency reserve: ¥200 million; fiscal 2010 supplementary budget: ¥400 million)**

Support was provided for action by regions to attract enterprises using local features and revitalize local industries under the Act on Formation and Development of Regional Industrial Clusters through Promotion of Establishment of New Business Facilities, etc. Budgetary support was provided for the provision of one-stop services and activities to develop human resources, facilities, networks, and so on. Institutional support provided consisted of special tax provisions, special provisions under the Factory Location Act, a low-interest loan program for SMEs operated through the JFC, and tax allocations to local governments taking steps to attract enterprises to their regions.

**18. Support to revitalize industries that attract customers and stimulate exchanges in the regions (fiscal 2010 budget: included in ¥3.18 billion)**

Support was provided for geographically wide-ranging, joined-up measures to develop internationally competitive tourism and service industries by taking advantage of distinctive local resources such as traditional crafts, foods, and hotels. Five projects were newly selected in fiscal 2010.

**19. Traditional Craft Product Subsidy Program (fiscal 2010 budget: ¥1.02 billion)**

In order to promote the development of traditional craft industries, subsidies were provided to partially defray the cost of successor training programs and

demand development programs undertaken by local manufacturing cooperatives and other associations.

### Section 3 Measures concerning public demand

Ensuring that SMEs have opportunities to cater to public demand is a crucial concern. The “Fiscal 2010 Policy on State Contracts with Small and Medium Enterprises” was therefore adopted by the Cabinet in June 2010 to provide measures to expand such opportunities for SMEs and set a target of raising the proportion of contracts awarded to SMEs to 56.2%. This was accompanied by greater collaboration between the relevant ministries and agencies. Local governments were also requested to take necessary measures in accordance with national policy, and explanatory briefings were held in all prefectures.

#### ● Specific measures

##### 1. Establishment of “Fiscal 2010 Policy on State Contracts with Small and Medium Enterprises”

This policy sets a target for the proportion of public sector contracts to be awarded to SMEs. The fiscal 2010 target, approved by the Cabinet on June 18, was set at an all-time high of 56.2%.

It also incorporates a number of measures to expand opportunities for SMEs to win orders from the public sector. These include strengthened support for SMEs’ own self-help efforts, enhanced anti-dumping measures, and the issuance of requests to special companies to pay particular attention to the interests of SMEs.

##### 2. Launch of “Public Demand Information Portal Site” to expand opportunities for SMEs to receive orders from the public sector (fiscal 2010 budget: included in ¥710 million)

A Public Demand Information Portal Site has been set up to give SMEs one-stop access to order information published on central government and other public websites in order to improve SMEs’ access to information on public sector orders. This was accessed 67,429 times in fiscal 2010.

### Section 4 Enhancement of technological capabilities

In order to strengthen Japanese manufacturing’s international competitiveness and encourage the creation of new business, support provided for SME activities extending from R&D through to trial manufacture under the Act on Enhancement of Small and Medium-sized Enterprises’ Core Manufacturing Technology (“SME Manufacturing Enhancement Act”) was substantially expanded. Spending was allocated to support R&D pursued through regional industrial-academic-government partnerships along with other R&D and technological development

programs, and tax incentives were provided to encourage the development of technological capabilities.

#### ● Specific measures

##### 1. Comprehensive support for enhancement of SMEs’ core manufacturing technologies

Support was delivered by such means as low-interest loans provided by the Strategic Core Technology Advancement Program and the JFC to SMEs with approved specified R&D plans formulated in accordance with advancement guidelines under the SME Manufacturing Enhancement Act.

Results in fiscal 2010

- Approvals of specified R&D plans: 1,051 (cumulative total of 2,492 to date)
- Number of new projects selected for the Strategic Core Technology Advancement Program: 433
- Loans: 85 (cumulative total of 447 to date)

##### 2. Strategic Core Technology Advancement Program (fiscal 2010 budget: ¥15.01 billion; contingency reserve: ¥10.00 billion)

Support was provided for SME initiatives ranging from R&D to trial manufacture in order to enhance core manufacturing technologies (in 20 fields such as casting, forging, machining, and plating) that underpin the competitiveness of key fields of industry that drive the Japanese economy. Spending allocated to the program was considerably expanded in fiscal 2010 by the addition of ¥10 billion for programs funded by the contingency reserve to the initially allocated budget of ¥15.0 billion, and the initiatives to be undertaken in accordance with a total of 433 approved programs were adopted.

##### 3. Low-interest loans for SMEs engaging in trial manufacture and development of new products/technologies and development of new markets (fiscal investment and loan program)

Low-interest loans were provided by the JFC (further to examination of their business plans) to businesses engaging in the trial manufacture and development of new products and technologies, and the development of new markets applying the results of such trial manufacture and development, using core manufacturing technologies specified under the SME Manufacturing Enhancement Act. 247 such loans were made in fiscal 2010.

##### 4. Support under the Small Business Innovation Research (SBIR) Program

Provision of central government-allocated R&D spending to SMEs was expanded and commercialization of the results of technological development activities was promoted under the New Business Activity Promotion Act by such means as the designation of special subsidies for the development of new technologies

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leading to the creation of new industries, setting of targets for expenditures, and formulation of policies on measures to support the commercialization of results of development using specified subsidies. In fiscal 2010, information was provided on enterprises selected for receipt of specified subsidies to investors through SMRJ using a database launched in fiscal 2009. As a result of the publicizing and popularization of commercialization support measures, the value of lending in fiscal 2010 under the special loan program steadily rose to approximately ¥2.60 billion (from approximately ¥770 million in fiscal 2009). R&D projects were also implemented by phased competitive selection under the SBIR Program.

**5. Support for development of networks between upstream and downstream companies (fiscal 2010 budget: ¥190 million)**

In order to assist close communication between upstream SMEs supplying basic technologies and industries downstream, support was provided for projects to create forums for interaction between upstream SMEs and downstream industries and develop networks undertaken by 16 organizations across Japan.

**6. Regional Innovation R&D Program (fiscal 2010 budget: ¥3.44 billion; fiscal 2010 supplementary budget: ¥1.50 billion)**

R&D was undertaken by local industrial-academic-government research bodies to revitalize regional economies through the creation of new business and new industries. 78 projects were selected under the program in fiscal 2010.

**7. Subsidies to realize innovation (NEDO subsidy program)**

In order to support development projects leading to the commercialization of useful technological “seeds” held by enterprises in the private sector, subsidies were provided to R&D-oriented SMEs and similar businesses engaging in commercial development activities in priority fields under the Science and Technology Basic Plan (combined with “University-Launched Research and Development to Realize Business Creation” to assist collaboration between industry and universities). In fiscal 2010, 72 new projects being undertaken by R&D-oriented SMEs, etc. were selected.

**8. Support to raise SMEs’ R&D capabilities and facilitate development of commercial applications (fiscal 2010 budget: ¥900 million)**

To facilitate the commercial application of SMEs’ advanced and original technologies, support was provided for joint research projects undertaken by SMEs in partnership with universities and public

research institutes to test and evaluate new technologies for practical use. 40 projects were selected in fiscal 2010.

**9. R&D promotion tax system (for strengthening the technological bases of SMEs) (taxation scheme)**

This system allows a tax credit equal to 12% of the total cost of test and research expenses (not exceeding 20% of the total amount of corporation tax in the period concerned) for R&D undertaken by SMEs. In April 2009, the system was modified as follows to help tackle the economic crisis: (1) the limit on tax credits in fiscal 2009-10 was raised from 20% to 30% of the amount of corporation tax in the period concerned; and (2) amounts in excess of the tax credit limit incurred in fiscal 2009-10 were permitted to be included in tax credits for fiscal 2011-2012.

In addition to the above, enterprises will continue to be allowed to choose either tax credit worth 5% of the amount of increase in the cost of test and research expenditures or a tax credit equal to a fixed proportion of the amount of the cost of test and research expenses in excess of 10% of average sales (not exceeding 10% of the total amount of corporation tax in the period concerned) for a further two years through to the end of fiscal 2011.

**10. Support for development of innovation centers (program to develop test and evaluation facilities for enterprises, etc.) (fiscal 2010 supplementary budget: ¥30.30 billion)**

Support was provided for the development of equipment required to test and evaluate SMEs’ R&D outputs and the development of facilities and equipment for joint research pursued through close collaboration between local universities, enterprises, and public research institutes leading to the commercialization of technologies developed in Japan and the creation of new markets, industries, and jobs.

**11. Support for partnerships between hospitals and enterprises to develop and improve problem-solving medical equipment (fiscal 2010 supplementary budget: ¥3.00 billion)**

Support is provided in collaboration with the Ministry of Health, Labour and Welfare (MHLW) and the Ministry of Education, Culture, Sports, Science and Technology (MEXT) for the following activities in order to meet medical challenges and needs by leveraging SMEs’ manufacturing expertise: 1) selection of research projects that contribute to the solution of urgent needs in medicine; 2) the development and improvement of medical equipment through “medical-industrial collaboration” involving SMEs with distinctive regional manufacturing technologies (cutting, precision machining, coating, etc.) and medical and research institutes facing

challenges to be tackled using these technologies; and 3) activities extending through to clinical evaluation and commercialization.

## Section 5 Support for tackling business challenges

In order to supplement and strengthen the business support functions of SME support agencies providing routine business support to SMEs, an SME advice service was developed by establishing SME support centers at 84 locations throughout Japan.

Subsidies were also provided under the Market Development Program via the National Federation of Small Business Associations to fund projects contributing to SMEs' development.

### ● Specific measures

#### 1. Program to strengthen coordination of SME management support arrangements (SME Support Centers) (fiscal 2010 budget: ¥4.02 billion)

In order to supplement and strengthen the management support functions of providers of routine business support to SMEs, such as SME associations, financial institutions, and certified public accountants, SME support centers were established in 84 locations around Japan to provide backup to these sources of support. These dispatched experts, organized seminars, and provided advice services to providers of support focusing on agricultural-commercial-industrial collaborations, business innovation, and similar areas. In fiscal 2010, 40,417 experts were dispatched and 112,572 requests for advice were handled.

#### 2. Support for collaborative organizations of SMEs (fiscal 2010 budget: ¥1.10 billion)

Support was provided via the National Federation of Small Business Associations, which is an agency specializing in supporting collaborative organizations of SMEs, to assist associations and other organizations engaging in business innovation and improvement.

#### 3. Support for capital investment through advancement programs integrated with business support

In order to help SMEs to improve their business environments and strengthen their management bases, SMRJ and prefectural governments worked together to assess and provide advice on business plans concerning the collaborative projects involving the establishment of business cooperatives, etc. This initiative was accompanied by the provision of low-interest (or interest-free) long-term loans to fund necessary capital expenditures.

#### 4. "One-stop Service Day" and "SME One-stop Telephone Counseling Month" to improve access to SME support measures

Following the Cabinet's adoption of the "Three-step Economic Strategy to Implement the New Growth Strategy," a "One-stop Service Day" was held in cooperation with interested agencies in order to give users a one-stop source of advice on subjects such as financing and employment adjustment subsidies.

In addition, March 2011 was designated "SME One-stop Telephone Counseling Month" at the end of the fiscal year to provide a single source of telephone advice for businesses to turn to on a wide range of subjects, including financing and intellectual property (IP).

## Section 6 Revitalization of shopping districts and city centers

Shopping districts nowadays face extremely difficult conditions, with structural problems such as a shortage of successors compounding the challenges presented by the intensification of market competition and diversification of consumer needs.

Due to their deep community roots, however, it is hoped that they will play key local roles and functions in their local communities.

In view of these circumstances, the Act to Promote Business Activities Meeting Local Resident Demand in Order to Revitalize Shopping Districts ("Local Shopping District Revitalization Act") was enacted in July 2009 with the aim of revitalizing shopping districts by providing support for the sorts of initiatives that only shopping districts can deliver in order to generate greater local prosperity, and support was provided through a variety of mechanisms for initiatives undertaken by shopping districts pursuing revitalization through their performance of key local community functions.

The de-integration of residential and commercial districts in "dispersed" towns taking place against the backdrop of the rapidly declining birthrate and demographic aging is also resulting in the decline in provision of diverse services to residents and growth in the cost of operating and maintaining cities, making it difficult to maintain comfortable lifestyles.

This makes it necessary to engage in sustainable urban formation through, for example, the consolidation of urban functions in built-up areas and strengthening of commercial and community functions in central urban areas in order to develop compact, vibrant neighborhoods. Support was therefore provided for city center revitalization projects being pursued by private businesses, shopping districts, and other entities in regions approved by the Prime Minister under the Act on Improvement and Vitalization of City Centers.

### ● Specific measures

#### 1. Comprehensive support for revitalization of local shopping districts

Support was provided for approved shopping district revitalization projects and similar initiatives planned

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by shopping center promotion associations under the Local Shopping District Revitalization Act. 69 projects were approved between the act's entry into effect on August 1, 2009, and the end of March 2011.

**2. Program to improve the vitality of SMEs in commerce and local shopping district revitalization program (fiscal 2010 budget: ¥3.18 billion; fiscal 2010 supplementary budget: ¥1.98 billion)**

Support was provided for commercial revitalization initiatives undertaken by shopping districts and other organizations to meet social challenges created by the falling birthrate, demographic aging, and so on. 152 such initiatives were selected nationwide in fiscal 2010. Support was also provided under the Regional Commercialization Revitalization Program funded under the supplementary budget for initiatives undertaken by shopping districts and other organizations to revitalize local commerce by such means as using digital content to attract more shoppers, developing new business using vacant stores, and developing services to assist vulnerable residents with poor access to shopping facilities. 124 such initiatives were selected nationwide in fiscal 2010.

**3. Development of human resources by National Shopping District Support Centers**

“National Shopping District Support Centers” established jointly by four organizations involved with SMEs provided training, provision of expertise, and other support. Assistance with obtaining approval under the Local Shopping District Revitalization Act and training and forums concerning various shopping district activities were organized in 359 locations across the country in fiscal 2010.

**4. Program to support activities of shopping center promotion associations (fiscal 2010 budget: ¥220 million)**

This program provided support for guidance and information services undertaken by the National Federation of Shopping Center Promotion Associations to assist with the smooth running of programs operated by shopping center promotion associations and federations of shopping center promotion association. It also assisted community projects implemented by shopping center promotion association across the country.

**5. Strategic support for the revitalization of commerce in city centers (fiscal 2010 budget: ¥3.31 billion)**

Support was provided to assist commercial revitalization projects undertaken by shopping districts and retailers/wholesalers, etc. and the operations of councils for the revitalization of city centers in accordance with master plans approved under the Act

on Improvement and Vitalization of City Centers in order to develop compact, vibrant neighborhoods. 67 such initiatives were selected in fiscal 2010.

**6. Program to support the operation of councils for the revitalization of central urban districts (SMRJ subsidy program)**

The City Center Revitalization Council Support Center established in SMRJ led the provision of support in the form of advisory services concerning the establishment and operation of councils for the revitalization of central urban districts, provision of information via websites and other media, investigative research, and assistance with the organization of block-level exchange meetings. Comprehensive support was also provided to assist the smooth establishment and operation of councils for the revitalization of central urban districts.

**7. Program to dispatch advisers to assist city center and shopping district revitalization (SMRJ subsidy program)**

Experts in a range of fields registered with SMRJ were dispatched to 267 regions in fiscal 2010 to help tackle various challenges faced by councils for the revitalization of central urban districts and shopping districts in city centers and other areas.

**8. Consultations and support for commercial revitalization in city centers (SMRJ subsidy program)**

Seminars, small symposiums, consultations, and advice were provided using SMRJ's specialist know-how in 151 regions in fiscal 2010 in order to assist commercial revitalization initiatives being undertaken in city centers by councils for the revitalization of central urban districts, shopping districts, and other organizations.

**9. Taxation scheme to strengthen the bases of SMEs and other enterprises (taxation scheme)**

This scheme allows retailers, wholesalers, providers of specified services, and similar businesses to claim a special depreciation for 30% or a tax credit for 7% of the cost of purchase of certain machinery and equipment.

**10. Special deduction for income from land transfers (taxation scheme)**

Shopping center promotion associations that have been approved under the Local Shopping District Revitalization Act are allowed a special deduction of ¥15 million for income from transfers of land and similar assets arising from their transfer for use under approved shopping district revitalization projects, etc.

## Chapter 3 Industry-specific measures for SMEs

### Section 1 Support for SMEs in agriculture, forestry, and fisheries

#### ● Specific measures

#### 1. Modernization of SMEs in agriculture, forestry, and fisheries

- (1) Emergency measures to address structural changes affecting raw material sources, etc. in the wood industry (fiscal 2010 budget: ¥400 million) Subsidies were provided to help defray the cost of interest on loans to fund the introduction of equipment required to process domestically produced materials, stabilize management, and so on. Subsidies were also provided to help defray the cost of interest or lease fees incurred in order to introduce machinery and equipment needed to ensure stable supplies of high-quality wood products offering reliable performance for low cost.
- (2) The following programs were implemented through competitive funding and other methods.
  - 1) Promotion of basic research to generate innovation (fiscal 2010 budget: ¥5.99 billion) R&D to develop and ready for commercial application the technological “seeds” that will lead to innovation in industries such as agriculture, forestry, and fisheries and in food manufacturing was promoted, and support was at the same time provided for R&D contributing to the development of ventures.
  - 2) Development of practical technologies to implement new agricultural, forestry, and fishery policies (fiscal 2010 budget: ¥6.18 billion) Development of technologies leading to commercial application by industrial-academic-government collaborations was promoted while paying attention also to agricultural-commercial-industrial collaborations in order to contribute to the development of agriculture, forestry, and fisheries and food manufacturing as well as regional revitalization.
  - 3) Promotion of practical applications of private-sector R&D (fiscal 2010 budget: ¥1.70 billion) Support was provided for the development and real-world testing of technologies (using, e.g., biomass resources) at the commercialization stage in the private sector to assist rural communities’ transition to marketing produce directly to consumers.
- (3) Program to promote improvement of quality control in food industries (fiscal 2010 budget:

¥190 million)

Support was provided to accelerate the adoption of HACCP practices (hygiene management based on continuous monitoring and recording of critical points to prevent hazards from arising at every stage from receipt of food raw materials through to manufacture and shipment) at small and medium food producers. Support was also provided to ensure rigorous implementation of ordinary hygiene control at micro establishments where introduction of HACCP practices is unfeasible.

- (4) Program for development of quality control systems for the marine products industry (fiscal 2010 budget: ¥90 million) Support was provided to assist the adoption of HACCP practices throughout every stage of distribution of marine products (including at fishing vessels, markets, and processing plants) and the adoption of HACCP practices at marine product processing plants seeking to export produce to North America, Europe, and elsewhere overseas.
- (5) Support for agricultural-commercial-industrial collaborations (fiscal 2010 budget: ¥770 million) In order to further promote agricultural-commercial-industrial collaborations, support was provided for the activities of coordinators providing specialist advice, the development of new products through various forms of inter-industry collaboration, and activities to develop markets, etc.
- (6) Support for development of facilities to promote agricultural-commercial-industrial collaborations (fiscal 2010 budget: ¥780 million) In order to promote full-scale commercialization by agricultural-commercial-industrial collaborations, support was provided for the development of food processing and distribution facilities and agriculture, forestry, and fishery machinery and facilities that agriculture, forestry, and fishery businesses and food businesses can use to establish stable business ties.
- (7) Various forms of lending by the JFC (fiscal investment and loan program) Loans were provided by the JFC to promote: 1) management improvements at specified agricultural product processors; 2) development of new uses for specified agriculture, forestry, animal, and fishery products and the adoption of new breeds and varieties for processed materials; 3) development of stable business relations between food manufacturers and agriculture,

forestry, and fishery businesses and the development of agriculture, forestry, and fishery facilities; 4) improvement of dairy facilities; and 5) strengthening of businesses in the marine product processing industry.

- (8) Development of human resources to create new business (fiscal 2010 budget: ¥400 million)

In order to develop human resources throughout Japan to play a part in the creation of new business in the agricultural, forestry, and fishery industries, such as the creation of groundbreaking methods of using “resources” derived from agricultural, forestry, and fisheries and rural communities, research was undertaken into human resource development programs leading to the establishment of endowed courses and other courses at universities and similar institutions.

## 2. Rationalization of food and wood distribution

- (1) Assistance to promote labeling of places of origin (fiscal 2010 budget: ¥10 million)

Further adoption of the “Guidelines for Labeling of Place of Origin in the Food Industry” was promoted to allow enterprises in the food industry to independently display information on the production location of ingredients in accordance with these guidelines.

- (2) Support for development of systems in the wood industry through subsidies for developing the forestry and wood industries (subsidy program)

Support was provided for local small and medium mills to introduce facilities for switching product lines to collaborate with major plants and to develop facilities to produce a stable supply of thinning wood chips for papermaking.

Development of equipment for distribution and processing facilities to ensure stable, low-cost supply of wood products of clear quality and performance, development of seasoned lumber supply systems, and development of new integrated model systems were promoted.

- (3) Loans to improve the food distribution structure (fiscal investment and loan program)

Loans were provided to food distributors to develop distribution systems extending from areas of production to the retail stage to assist preservation of freshness and other elements of quality control.

- (4) Program to reorganize the dairy industry (fiscal 2010 budget: ¥1.83 billion)

Far-reaching reorganization and rationalization of dairy plants was further promoted, and subsidies were provided for the concentration of production at dairy industry facilities meeting high hygiene standards.

- (5) Wood Industry Upgrading Promotion Fund and Forestry and Wood Industry Improvement Fund

Loans were provided by the Wood Industry Upgrading Promotion Fund to fund rationalization of lumber production and distribution, and loans were provided by the Forestry and Wood Industry Improvement Fund to fund management improvements in the forestry and wood industries.

## Section 2 Measures for SMEs in the transport industry

### ● Specific measures

#### 1. Support for the warehousing industry

Upgrading of the physical distribution functions of facilities was promoted in order to meet the need for increasingly sophisticated physical distribution services in response to changes in the socioeconomic environment.

#### 2. Support for automobile wrecking and maintenance businesses

In order to facilitate the raising of funds required for the modernization of automobile wrecking and maintenance operations, loan guarantees and interest subsidies were provided by making appropriate use of the automobile maintenance modernization fund program.

#### 3. Measures for the coastal and domestic passenger shipping industries

- (1) Program to reduce carbon emissions generated by marine transport (fiscal 2010 budget: ¥100 million)

Ferry and coastal shipping services were made more competitive and revitalized by promoting the introduction of measures to reduce carbon emissions generated by this sector, which has a key role to play in the modal shift in transportation.

- (2) Promotion of investment in coastal shipping vessels to reduce carbon emissions generated by marine transport (fiscal 2010 supplementary budget: ¥2.99 billion)

Use of marine transport networks was promoted and environmental load and physical distribution costs were lowered by supporting action by marine transportation businesses to introduce chassis and other transportation equipment. Vessel usage fees were reduced by a certain proportion for joint shipbuilding contributing to energy-saving measures and enhancement of domestic feeder vessels for marine transportation businesses that engage in joint shipbuilding using the joint shipbuilding program of the Japan Railway Construction, Transport and Technology Agency (“JRJT”).

- (3) Interim measures for coastal shipping

In order to ensure the smooth and steady

implementation of interim measures for coastal shipping, support measures were implemented by establishing a separate system of government guarantees of loans required to fund these measures.

- (4) Promotion of construction of environmentally friendly and highly efficient domestic vessels using the joint shipbuilding program

In order to revitalize coastal shipping, construction of environmentally friendly and highly efficient vessels such as “super eco-ships” was promoted by utilizing the JRJT’s joint shipbuilding program. As of April 2011, 19 super eco-ships had been commissioned and three were under construction.

#### 4. Measures for small and medium shipbuilders and related manufacturers

Steps were taken to develop a safety net to stabilize management further to designation of specified industries under the Counter-cyclical Emergency Guarantee Program. Courses on modernization of management techniques were held in eight locations and health and safety manager training courses were held in three locations around Japan to help prevent industrial accidents. Support was additionally provided for the development of energy-saving technologies, etc. to reduce carbon dioxide emissions by vessels (12 of the 22 technology development projects involved the participation by SMEs), and action was taken to, among other things, enhance technological capabilities through the provision of assistance for the commercialization of new technologies by the JRJT.

### Section 3 Measures for small and medium building contractors and realtors

#### ● Specific measures

##### 1. Securing and training of human resources in construction

- (1) Support was provided for initiatives undertaken collaboratively by local building contractors, technical high schools, and other entities (in five regions), including the provision of classroom-based and practical instruction to students at schools by architectural engineers and skilled construction workers, in order to assist the securing and training of the human resources required by the construction industry in the future (joint MEXT/Ministry of Land, Infrastructure, Transport and Tourism (MLIT) program) (fiscal 2010 budget: included in MEXT ¥100 million, MLIT ¥20 million)
- (2) Hiring and training of registered key skilled workers playing core roles at construction sites was promoted in order to ensure construction product quality and raise productivity, etc.,

and assessments were carried out under the experimental comprehensive evaluation bidding system for certain directly-managed construction projects.

- (3) Minister of Land, Infrastructure and Transport’s Awards for Outstanding Engineering (“Construction Master” awards) were awarded to 411 outstandingly skilled construction workers in order to increase the sense of pride and motivation felt by individuals involved in “skilled manufacturing” at construction sites and to improve social evaluation.

##### 2. Enhancement of management capabilities in the construction industry

- (1) 156 businesses were selected to have their costs subsidized under the “Construction and Regional Revitalization Subsidy Program” to support building contractors pursuing regional revitalization and the development of new business through collaboration with organizations in fields such as agriculture, forestry, and tourism and with local governments.
- (2) The “Construction Enterprise Partnership Frontier Program” was launched to strengthen collaboration between construction enterprises and encourage more skilled workers to be taken on to help them develop their businesses in projected growth areas, such as the markets for maintenance, eco-friendly and quakeproof construction, and renovation work (fiscal 2010 supplementary budget: ¥1.10 billion).
- (3) In order to facilitate initiatives by small, medium, and mid-tier construction enterprises to enter new fields, innovate in business, and strengthen their management bases, a one-stop service center program has been launched to set up management help desks in each prefecture to provide such enterprises with access to relevant services from a single, integrated source operated in cooperation with related ministries, agencies, and other authorities (fiscal 2010 budget: ¥140 million).

##### 3. Financial support in the construction industry

- (1) In order to facilitate the raising of funds by building contractors, use was made of the finance system to strengthen the business of local building contractors, which incorporates mechanisms to encourage securitization of construction fee receivables (including fees for unfinished portions of work) held by building contractors against orderers of public works. Building contractors using the system benefit from interest payment relief and other measures through subsidies from the central government. Under the fiscal 2010 supplementary budget, private projects with a public interest element, such as construction of



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hospitals, welfare facilities, and PFI projects, were added to the program's coverage, and the program's period of effect was extended from the end of fiscal 2010 to the end of fiscal 2011 (fiscal 2010 supplementary budget: ¥320 million).

- (2) The Subcontracting Receivables Protection Support Program was implemented to assist the protection of receivables held by building subcontractors and similar enterprises. The main purpose of this program is to stabilize management and jobs at building subcontractors and materials suppliers and to prevent chain bankruptcies. This is achieved as follows: when a receivable payable to a building subcontractor by a main building contractor for subcontracted building work is guaranteed by a factoring company, the guarantee fee payable by the building subcontractor is reduced and indemnification is provided in the event that the factoring company suffers a loss as a result of fulfilling its guarantee obligations when a guaranteed receivable cannot be recovered. Under the fiscal 2010 supplementary budget, the requirements concerning main building contractors permitted to be covered by guarantees were considerably relaxed, and the program's period of effect was extended from the end of fiscal 2010 through to the end of fiscal 2011 (fiscal 2010 budget: ¥810 million; fiscal 2010 supplementary budget: included in ¥3.24 billion).

#### **4. Support for development of operations overseas in the construction industry (fiscal 2010 budget: ¥20 million)**

In order to assist the development of operations overseas by local and small and medium building contractors lacking in overseas business experience by providing the knowledge and know-how needed to do business overseas, programs including an expert advisory service and overseas business seminars (held in five locations around the country) were implemented.

#### **5. Financial measures for small and medium realtors**

The Real Estate Transaction Modernization Center Foundation provided guarantees of loans to fund joint initiatives pursued by business associations and similar bodies (for funds such as small and medium realtor cooperation facilitation funds and joint facility funds).

#### **6. Revitalization and improvement of technological capabilities of small and medium homebuilders**

- (1) Support was provided for the development of long-life, quality wooden housing using locally produced timber by small and medium homebuilders (fiscal 2010 budget: included in

¥5.0 billion).

- (2) Support was provided for the development of systems of supply and promotion of wider use of wooden homes and other initiatives undertaken collaboratively by local carpenters, builders, and lumber producers, etc. (fiscal 2010 budget: ¥550 million).

#### **7. Development of the real estate market**

In order to promote the further adoption of the Real Estate Information Network System (REINS), the trust of consumers must be gained in addition to increasing their awareness and interest in the system. Support was therefore provided for initiatives to provide information using real estate transaction price data in REINS, and the further development of the real estate market was promoted.

### **Section 4 Measures for the environmental sanitation business**

#### **Specific measures**

##### **1. Measures for the environmental sanitation business (fiscal 2010 budget: ¥490 million)**

The following programs were implemented by environmental sanitation business guidance centers to promote the development of environmental sanitation businesses ("ES businesses").

- (1) Energy-saving promotion programs, including formulation of industry-specific guidelines, were implemented to promote energy conservation measures by ES businesses.
- (2) In order to support initiatives undertaken to secure successors at ES businesses, successor development support programs were implemented. This involved the implementation of model internship programs to promote the employment of young people in the environmental sanitation industry.
- (3) In order to support ES businesses facing intensified competition generated by the entry of large enterprises by helping them to change how they operate to adapt to local conditions, a business improvement promotion program was implemented. This involved the convening of study groups, conduct of consumer and user opinion surveys, and implementation of model projects based on newly created forms of business.
- (4) Programs were implemented to improve consumer services, promote community welfare, develop human resources, and improve sanitation standards through the independent actions of environmental health associations and other organizations.
- (5) Town development programs involving the

convening of study groups, conducting of opinion surveys, and sanitation mapping were implemented to support the development of residential zones such as shopping districts.

**2. Loans for ES businesses (fiscal investment and loan program) (fiscal 2010 budget: ¥1.22 billion)**

The JFC and the ODFC provided low-interest loans to ES businesses engaging in business based on development plans. According to preliminary figures, the JFC made 10,719 loans worth ¥5.9 billion and the ODFC made 457 loans worth ¥3.52 billion in fiscal 2010.

The JFC and ODFC also provided unsecured, unguaranteed loans (“Eikei loans” to improve management) through the provision of management guidance by special consultants and business advisors at environmental health cooperatives and prefectural environment sanitation business guidance centers. According to preliminary figures on such lending, the JFC made 1,362 loans worth ¥3.9 billion and the ODFC made 155 loans worth ¥590 million in fiscal 2010.

## Section 5 Measures for the service industry

The impact of the global recession emanating from the financial sector and protracted deflation made it crucial that the service industry too take concrete steps to raise productivity in order to secure jobs and raise wage levels. Various forms of support were therefore provided over the three years from fiscal 2007 in order to raise the

productivity of service providers. Based on the cumulative results of these measures, tools that are easy for SMEs to use were developed and awareness and use of such tools were promoted in fiscal 2010.

● **Specific measures**

**1. Development of standard framework for improvement of business processes to raise productivity of small and medium service providers (fiscal 2010 budget: included in ¥270 million)**

Information has so far been collected on cases of initiatives and improvements implemented by more than 300 outstanding service providers. Common elements for raising the productivity of small and medium service providers were identified from these cases to develop a standard framework for improvement of business processes, which was provided to SMEs along with check sheets and manuals.

**2. Development of “Small and Medium Service Evaluation System (SES)” (fiscal 2010 budget: included in ¥270 million)**

Drawing on the Japan Customer Satisfaction Index (JCSI) and survey mechanisms developed based on analysis of precedents in other countries, a simplified customer satisfaction (CS) survey approach was developed for SMEs to enable small and medium service providers to survey satisfaction cheaply and efficiently. This was publicized in conjunction with concrete methods of use and suggested applications to enable SMEs to use it to implement business improvements in order to generate interest in ways of making business more CS-oriented.

## Chapter 4 Other measures for SMEs

### Section 1 Environmental and energy measures

Given the upward medium/long-term trend in energy prices and the growing problem of global warming, reducing SMEs’ carbon emissions has become an important element of a firm management base.

Support was therefore provided for SMEs’ adoption of energy-saving equipment and equipment powered by renewable energies. This was accompanied by support for anti-pollution measures.

● **Specific measures**

**1. Domestic Credit System (fiscal 2010 budget: ¥2.83 billion; fiscal 2010 supplementary budget: ¥1.59 billion)**

Administrative support was provided to make it easier for SMEs to use the Domestic Credit System, which assesses and provides support for energy conservation for SMEs and other businesses. In order to boost low-

carbon investment using the Domestic Credit System, subsidies corresponding to the projected reductions in carbon dioxide emissions expected to be produced by introduction of low-carbon equipment were provided with funding allocated under the fiscal 2010 supplementary budget.

**2. Development of Carbon Footprint System (fiscal 2010 budget: ¥610 million)**

Action was pursued to develop and promote understanding of the Carbon Footprint System by dispatching experts to participating businesses and organizing information events around the country. The Carbon Footprint System is a system for converting emissions of greenhouse gases throughout the product lifecycle (from procurement of raw materials through to disposal and recycling) to carbon dioxide equivalents, and is designed to contribute to the development of a low-carbon society through concerted action by businesses and consumers by making it easier for

them to visualize greenhouse gas emissions and so encourage cuts in such emissions by businesses along the entire supply chain. An active contribution was made to discussion toward development of an ISO international standard, expected to be released at the end of fiscal 2011. 308 products have been licensed under the system, and 17 information events were held nationwide (as of March 2011).

### 3. Environmental and Energy Measure Funds (for anti-pollution measures) (fiscal investment and loan program)

Low-interest loans were provided by the JFC to businesses introducing anti-pollution equipment in order to promote pollution control measures by SMEs. In fiscal 2010, the types of equipment covered and interest rates were partially revised, and the program's period of effect was extended through to March 31, 2012.

#### Loans made (April 2010-March 2011)

	Number of loans	Value
Air pollution related	33	¥1,288 million
Water pollution related	27	¥1,326 million
Industrial waste and recycling related	107	¥6,426 million
Automobile NOx/PM Act	137	¥2,263 million

#### 4. Anti-pollution tax system (taxation scheme)

Tax measures were introduced to support anti-pollution initiatives undertaken by SMEs. These include the special exemption of anti-pollution equipment from the tax base for fixed asset tax, and special depreciation for acquisitions of anti-pollution equipment. In fiscal 2010, categories of equipment eligible for these tax measures and depreciation rates were revised and the period of effect was extended by one year.

#### 5. Energy Use Rationalization Business Support Program (fiscal 2010 budget: 27.01 billion)

Over 200 grants were paid during the year to help defray the cost of installation of equipment deemed particularly important in view of the policy goals of promoting advanced technologies offering wider rollout potential, energy efficiency, and cost effectiveness. These were provided to assist the implementation of initiatives planned and undertaken by businesses, and were targeted in particular at the introduction of advanced equipment and technologies by SMEs.

#### 6. Program for promoting the introduction of energy-saving measures (fiscal 2010 budget: ¥910 million)

A variety of activities were held to promote energy-saving measures at mid-tier enterprises, SMEs, plants, and business establishments incorporating operational divisions. These included explanatory events and expert assessments (approximately 1,100 of which were made) of the feasibility of introduction of energy-saving technologies and equipment. Support was also provided for the introduction of measuring and monitoring systems enabling easier "visualization" of energy consumption. In conjunction with these measures, simple energy conservation assessments

were conducted using visualized data.

#### 7. Taxation scheme to promote investment in reforming the structure of energy supply and demand (taxation scheme)

This tax measure allows businesses that purchase and install specified types of energy-saving equipment a special depreciation for 30% of the acquisition cost. SMEs can choose between this and a 7% tax credit for the acquisition cost. (An "immediate depreciation" system is in place that allows businesses to write down the entire acquisition cost for two years from fiscal 2009.)

## Section 2 Promotion of adoption of IT

Use of IT in business management is necessary and essential to strengthening SMEs' competitiveness. Owing to their limited funds, human resources, and other business resources, coupled with a lack of concrete knowledge regarding IT, however, SMEs find it difficult to use IT. In the regions, moreover, the insufficient supply of IT required by SMEs as users is impeding its adoption in business management and obstructing efforts to reduce the regional divide.

A variety of measures were therefore implemented to make use of IT to boost SMEs' competitiveness. These included training to develop awareness of the importance of IT management, compilation of information on best practice and encouragement of wider adoption through the IT Management Awards for Small and Medium Enterprises, support for partnerships between local IT users and vendors, measures to promote collaboration between small and medium vendors, and tax measures to promote investment in high-quality IT offering advanced information security.

### ● Specific measures

#### 1. Regional Innovation Partnership/IT Management Support Teams (fiscal 2010 budget: included in ¥420 million)

Use was made of IT management support teams to provide a collaborative public/private network of support as part of the regional innovation partnership to strengthen collaboration between local IT users and vendors. More specifically, training in practical IT management was provided for SMEs on some 200 occasions in fiscal 2010. Fiscal 2010 also saw the compilation of information on 105 cases identified primarily through the IT Management Awards for Small and Medium Enterprises, whose purpose is to publicly recognize enterprises that actively practice IT management and serve as useful models for other SMEs.

#### 2. Lending by government-affiliated financial institutions for investment in IT (IT Fund) (fiscal investment and loan program)

The JFC acted as a steady source of lending to enable SMEs to keep up with changes in the business environment associated with the spread and changes in IT and digital content. As of the end of March 2011, 6,411 loans worth a total of ¥77.7 billion had been made.

#### 3. Taxation scheme to strengthen SMEs' information infrastructure (taxation scheme)

The purpose of the taxation scheme to strengthen SMEs' information infrastructure is to promote investment in secure, high-quality IT leading to improvements in productivity at SMEs that lag considerably behind large enterprises in their use of IT. It achieves this by allowing SMEs that have invested in IT equipment and meet certain conditions to choose between a special depreciation of 30% or a tax credit for 7% of the amount of investment. Designed for ease of use, the minimum acquisition cost is set at ¥700,000, and new IT assets such as virtualization software have been added to the scheme's coverage.

## Section 3 Measures on intellectual property

SMEs as well as large enterprises are finding it increasingly important to make use of IP, such as technological inventions and business know-how, to maintain and develop their businesses. However, as SMEs find it more difficult than large enterprises to secure sufficient knowledge, human resources, and funds to protect their IP, raising awareness of IP systems and making use of outside human resources to protect IP are important priorities. Assistance was therefore provided by, among other things, providing advice services for SMEs and dispatching human resources.

### ● Specific measures

#### 1. Advice and consulting service for resolving problems regarding SMEs' IP (fiscal 2010 budget: ¥810 million)

Help desks were opened in all 47 prefectures to provide a one-stop source of advice on IP concerns and problems encountered by SMEs in the course of business. These are staffed by expert coordinators who help SMEs to accurately identify and recognize their concerns and problems and find appropriate solutions to them.

As of the end of March 2011, 26,560 requests for advice had been handled by coordinators on help desks, 1,744 visits by IP experts selected by coordinators had been made to SMEs, 6,191 free consultation events had been staged by IP experts, and assistance had been provided for 4,173 electronic patent applications.

#### 2. Promotion of patent licensing (INPIT subsidy program)

Various programs were implemented to promote the use of IP, including the dispatch of experts by the National Center for Industrial Property Information and Training (INPIT). In fiscal 2010, 10,849 visits were made to SMEs by advisors on use of patent information, and 1,272 licensing agreements were entered with assistance from patent licensing advisors.

#### 3. Support with surveys of prior art for patents applied for by SMEs and other enterprises (fiscal 2010 budget: ¥530 million)

Surveys of prior art were conducted prior to application for examination at the request of SMEs making patent applications. These were conducted by private-sector survey agencies commissioned by the Patent Office, and the results were used to enable SMEs to decide whether to apply for examination. Support was provided for 6,572 applications in fiscal 2010.

#### 4. Survey of trends in patent applications (fiscal 2010 budget: ¥620 million)

Surveys of trends in patent applications were conducted to assist in the development of R&D strategies and IP strategies, and the findings were made publicly available via the Patent Office's website and other channels. Surveys were conducted on 12 categories of technology in fiscal 2010, including: environmental and energy technologies, such as wind power generation; life science technologies, such as drug delivery systems (DDS); and manufacturing technologies, such as laser processing techniques.

#### 5. Support for the IP strategies of local SMEs (fiscal 2010 budget: ¥170 million)

Support was delivered to SMEs and business ventures through implementation of the following two programs via prefectural SME support centers: dispatch

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of IP experts to provide intensive support for a fixed period in the strategic use of IP in business management; and support services to assist SMEs and business ventures seeking to make strategic patent applications in other countries to assist their expansion overseas. Consulting services were provided to 32 enterprises and assistance with foreign patent applications was provided to 71 enterprises in fiscal 2010.

**6. Promotion of wider use of IP and industrial property systems (fiscal 2010 budget: ¥80 million)**

Information sessions were held for individuals of different levels of expertise (beginners, practitioners, etc.) in order to promote acquisition and use of IP rights by widely disseminating basic knowledge and information about IP, details of examination criteria, guidelines on their application, details of legal revisions, and so forth.

In fiscal 2010, 56 beginners' information sessions were held in 47 prefectures, and 73 sessions for practitioners were held in 22 cities across Japan.

**7. Support for protection of SMEs' IP (fiscal 2010 budget: ¥30 million)**

In order to help protect the IP of Japanese SMEs that are developing operations overseas, use was made of JETRO's overseas network to assist investigations of IP infringements conducted at the individual request of SMEs. Subsidies were also provided to partially defray the cost of such investigations. 13 cases were selected for investigation in fiscal 2010.

**8. Patent strategy portal site (fiscal 2010 budget: ¥10 million)**

The patent strategy portal site accessed from the Patent Office's website provided "data for self-analysis," including data on the user's number of patent applications, number of examination requests, and patent allowance rate over the preceding 10 years, for applicants that have applied for a password. 1,142 enterprises applied for passwords between the portal site's launch in 2008 and the end of March 2011.

**9. Reduction of patent and other fees paid by SMEs**

Halving of examination request and patent fees (from fees in the first through third years, or sixth year in certain cases) for SMEs engaging actively in R&D was continued to enable them to develop new business activities by patenting their R&D outputs.

**10. Deferral of payment of examination fees**

As an emergency measure to reduce the financial burden on SMEs in the face of the recent deterioration of economic conditions, SMEs were allowed to defer

payment of examination fees for a period of one year only dating from the date of filing of an application for examination of a patent application. This measure was introduced on April 1, 2009, and had been used by 30,628 enterprises by the end of March 2011.

**11. Accelerated examination and accelerated appeal examination system**

This system, which is designed to enable SMEs to obtain industrial property rights more rapidly, allowed fast-tracking of examinations and appeal examinations requested by SME applicants and appellants that filed the appropriate forms ("explanation of situation for accelerated examination" and "explanation of situation for accelerated appeal examination").

**Section 4 Promotion of human rights awareness**

● **Specific measures**

In order to widely propagate respect for and cultivate awareness of human rights among SMEs, nongovernment organizations and local governments were commissioned to organize lectures, produce pamphlets, and conduct similar awareness-raising activities (fiscal 2010 budget: ¥190 million).

**Section 5 Coordinated support to combat suicides**

● **Specific measures**

Following the adoption of the "Emergency Plan of Action against Suicides to Preserve Life" by the Government's Council for Policy of Suicide Prevention in February 2010, a Suicide Prevention Taskforce was set up in the council in September 2010. This taskforce decided that intensive action should be taken by the end of the year between September and December 2010, resulting in the enhancement of legal help for proprietors at 84 locations and the services provided by special business stability advice centers in 250 locations around Japan.

In addition to the above, several other measures were taken to coincide with "Suicide Prevention Month" in March, when suicides are at their highest. These included (1) requesting some 400 organizations and agencies to take appropriate steps to raise awareness of Suicide Prevention Month; (2) putting into practice "SME One-stop Phone Helpline Month"; and (3) requesting agencies and organizations that work with SMEs to provide close support through their routine contact with SMEs, including the provision of routine guidance during the visits by the approximately 8,000 business advisors at associations and chambers of commerce and industry around the country.

## Section 6 Promotion of surveys and public information activities

### ● Specific measures

#### 1. Publicizing of measures

SME measures were publicized by producing pamphlets and leaflets summarizing their main points for distribution to local governments and SME support providers. Further publicity was generated by staging “One-day SME Agency” events.

##### (1) Publication of print media

Several publications were produced, including a *Support for the Small Business Sector* pocketbook in addition to a *Guidebook for the Use of SME Measures* covering SME measures as a whole and pamphlets on specific measures. These were widely distributed to a range of interested parties, including SMEs, local governments, SME support providers, financial institutions, and public tax accountants, lawyers, and SME management consultants providing support for SMEs.

##### (2) Publication of flyers

A monthly brochure providing a simple introduction to the latest SME support measures, entitled *Support for Small Businesses*, is published on a monthly basis. This is widely distributed like the above booklets along with other leaflets that are produced to urgently publicize measures when needed.

##### (3) Organization of “One-day SME Agency” events

These events are co-hosted by the SME Agency and host prefectures, and are held both to explain and deepen understanding of the latest measures to local SMEs, and to provide a forum for exchanges of ideas and interaction contributing to the revision and enhancement of SME measures in the future. They have been held every fiscal year since fiscal 1964, and were held in Mie Prefecture and Fukushima Prefecture in fiscal 2010. They have been held 54 times to date.

##### (4) Online public information activities

###### 1) Website-based publicity

Update information on SME measures, information on public procurements, and printed materials such as leaflets and booklets are published on the SME Agency’s website. The website received approximately 52.66 million page views between April 2010 and the end of March 2011.

##### 2) Email newsletter

An email newsletter is produced in association with SME support providers. This showcases dynamic SMEs and contains information on measures, local information, information on surveys and research reports, and so on, and is sent to subscribers every Wednesday. It had approximately 68,450 subscribers as of March 2011.

##### 3) Mobile SME Agency

A search site is provided especially for mobile phone users to provide information on subjects including the latest SME support measures. This received approximately 300,000 page views between April 2010 and the end of March 2011. A mobile phone edition of the email newsletter is also sent out every Wednesday. This has approximately 2,700 subscribers (as of March 2011).

##### (5) J-NET21 (portal site providing SME business support)

A portal site on SME support is provided to provide smooth access to necessary sources of information. This received a cumulative total of 43.47 million page views in fiscal 2010.

#### 2. Production of the *White Paper on Small and Medium Enterprises in Japan* and other publications

In order to ascertain the current state of SMEs and the challenges that they face, an annual report (*2011 White Paper on Small and Medium Enterprises in Japan*) was produced in accordance with the provisions of Article 11 of the Small and Medium Enterprise Basic Act, along with other materials such as manufacturing production indices by size of enterprise.

#### 3. *Basic Survey of Small and Medium Enterprises*

The *Basic Survey of Small and Medium Enterprises* was conducted in accordance with the provisions of Article 10 of the Small and Medium Enterprise Basic Act to provide statistics concerning management and financial information such as the sales and numbers of workers at SMEs.

#### 4. Publication of the *Survey on SME Business Conditions*

The *Survey on SME Business Conditions* conducted quarterly by SMRJ in order to ascertain business trends among SMEs was published.

## Chapter 5 Support to help SMEs cope with the effects of the Great East Japan Earthquake

Funded in part by the fiscal 2011 supplementary budget passed on May 2, 2011, support has been provided to help the SMEs that sustain regional economies and

employment cope with the effects of the Great East Japan Earthquake on March 11, 2011. The *White Paper on Small and Medium Enterprises in Japan* for this fiscal year

describes measures that had been implemented as of the end of May 2011.

## Section 1 Financial support

### ● Specific measures

#### 1. Easing of conditions for repayment of existing debt

The JFC, Shoko Cukin, and credit guarantee corporations are responding flexibly according to the past performance of SMEs affected by the earthquake in regard to modification of existing debt (including grace for repayment), expedition of lending procedures, and adoption of more flexible requirements concerning collateralization. Repeated requests have been made since the day of the earthquake to private financial institutions by the Minister for Financial Services and other officials to modify the terms of loans and take other active steps in keeping with the purpose of the SME Financing Facilitation Act, and private financial institutions have endeavored to assist SMEs affected by the earthquake by, among other things, modifying the terms of existing borrowing and expediting lending procedures according to borrowers' past performance.

#### 2. Retroactive application of easing of conditions of repayment by JFC and Shoko Chukin

Steps have been taken to reduce the burden on SMEs that have fallen into arrears on repayment of existing debt as a result of the effects of the earthquake by allowing retroactive grace for repayment dating back to the repayment date even if they failed to apply for repayment grace in time, and by cutting down on the documents that are required to be submitted and expediting the agreement process.

#### 3. Extension of dates for repayment, etc. by credit guarantee corporations

Credit guarantee corporations were requested to lighten the burden on SMEs and other businesses affected by the earthquake by such means as streamlining examination paperwork, expediting the agreement process, and changing the dates and methods of repayment where repayments have been missed.

#### 4. Extensions on lease payments and terms of agreements

Leasing businesses have been required to respond flexibly and appropriately when SMEs in affected regions request extensions on lease payments or the terms of agreements.

#### 5. Provision of disaster recovery loans and lowering of interest rates

The JFC and Shoko Chukin have made separate provision for disaster recovery loans made to SMEs (including business partners) affected by the earth-

quake to meet working capital and capital expenditure needs. As a special measure, the base rate has been lowered to 0.9% for three years from the date of lending on up to ¥10 million of borrowing.

#### 6. Establishment of "Great East Japan Earthquake Special Recovery Loan" program (first fiscal 2011 supplementary budget: ¥178.60 billion)

A new system of lending by the JFC and Shoko Chukin to SMEs that have been directly or indirectly affected by the earthquake has been created. This sets necessary financing limits, and considerably increases loan and grace periods and the reduction of interest rates. A new fund has also been established to provide interest subsidies via local governments and similar agencies to SMEs that meet certain conditions so that they do not have to bear the cost of interest on loans.

#### 7. Expansion of ceilings and lowering of interest rates on *Marukei* and *Eikei* loans

The loan ceiling has been increased (by up to an additional ¥10 million) and interest rates have been lowered (by -1.2% from the base rate) for unsecured, unguaranteed low-interest loans provided by the JFC (*Marukei* and *Eikei* loans up to a maximum of ¥15 million) to certain small enterprises that have been directly or indirectly affected by the earthquake.

#### 8. Provision of disaster-related guarantees

Guarantees have been provided by credit guarantee corporations to SMEs that have suffered direct damage. These are separate from ordinary guarantees and are provided under the same arrangements as safety net guarantees. They guarantee 100% of the value of loans up to ¥80 million in the case of unsecured loans and ¥280 million in the case of other loans.

#### 9. Expansion of industries eligible for type 5 safety net guarantees

The number of industries covered by "type 5 safety net guarantees" for SMEs in industries that have experienced a particular deterioration of business conditions was going to be set at 48 in the first half of fiscal 2011. Due to the damage caused by the Great East Japan Earthquake, however, this number has been increased to 82 in order to cover basically all industries.

#### 10. Establishment of "Great East Japan Earthquake Emergency Recovery Guarantee" program (first fiscal 2011 supplementary budget: ¥320.90 billion)

A system of Great East Japan Earthquake emergency recovery guarantees has been set up separately from existing ordinary guarantees, disaster-related guarantees, and safety net guarantees for SMEs that have been directly or indirectly affected by the earthquake.

**11. Extension of period for repayment of equipment fund loans, etc. to small enterprises**

The period for repayment of existing and new borrowing under the Small Enterprise Equipment Funding Program and the Small Enterprise Equipment Lending Program has been extended by two years (from seven years to a maximum of nine years) in specified affected regions.

**12. “Special Funds for SMEs in Specified Regions” affected by the nuclear crisis**

In order to provide the funds required by SMEs that have had to move from the region affected by the crisis at the Fukushima Daiichi Nuclear Power Plant operated by Tokyo Electric Power Company (TEPCO) to maintain and reopen their businesses in new locations in Fukushima Prefecture and maintain employment, a special support program has been established in collaboration with Fukushima Prefecture. This employs SMRJ to provide long-term interest-free, unsecured loans for a period of up to 20 years.

**13. Accelerated payment of small enterprise mutual relief funds**

Measures have been put in place to enable the accelerated payment of a certain proportion of total contributions to the small enterprise mutual relief scheme operated by SMRJ where an application has been made by a member’s spouse, etc. who is in severe financial difficulties and payment would not otherwise be possible due to a member being listed as missing. In addition, a low-interest loan program (interest-free in the case of direct victims) has been launched for mutual relief scheme members who have suffered damage due to the earthquake or a sharp decline in sales due to rolling power outages, etc., and several measures have been adopted, including deferral of payment of contributions and repayment of temporary borrowing, and expedition of payment of mutual relief funds.

**14. Addition of grounds for loans under the Mutual Relief System for the Prevention of Bankruptcies of SMEs**

The relevant ministerial ordinance has been revised to enable loans provided under the Mutual Relief System for the Prevention of Bankruptcies of SMEs to be made where a disposition to suspend transactions has been put on hold due to the earthquake or a business partner (borrower) has died or is listed as missing, etc. and the borrower cannot personally complete the debt arrangement process. Measures have also been adopted to allow deferral of payment of mutual relief contributions and repayment of mutual relief borrowing and to expedite payment of relief funds to persons who have suffered damage due to the

earthquake.

Note: Further to a request signed jointly by the Minister for Financial Services and the Governor of the Bank of Japan on the day of the earthquake, all clearing houses are allowing the exchange and drawing of bills whose presentation terms have expired due to the earthquake and postponing their reporting of dishonored bills and checks.

**15. Expansion of financial support for building contractors****(1) Expansion of Local Construction Management Enhancement Loan Program**

In order to further facilitate financing by building contractors, receivables for damage to construction work in progress and removal of waste caused by the disaster (disposal of debris, etc.) have been included within the scope of the finance system to strengthen the business of regional building contractors, which incorporates mechanisms to encourage securitization of construction fee receivables (including fees for unfinished portions of work) held by building contractors against the orderers of public works.

**(2) Expansion of Subcontracting Receivables Protection Support Program**

In order to further facilitate the protection of receivables and financing by building subcontractors, etc., factoring companies have been requested to actively fulfill their guarantee obligations under the Subcontracting Receivables Protection Support Program, whose purpose is to assist the protection of receivables held by building subcontractors and similar enterprises. Receivables for construction work and the removal of waste caused by the disaster (disposal of debris, etc.) will also be freshly purchased, and receivables for removal of waste caused by the disaster in affected regions have been added to the scope of protection.

**Section 2 Support for restoration of plants and shopping districts, etc.****● Specific measures****1. Disaster restoration work on joint facilities of small business associations, etc. (first fiscal 2011 supplementary budget: ¥15.48 billion)**

The central government and prefectures are jointly subsidizing the restoration and development of facilities that are essential to the implementation of prefecturally approved development projects undertaken collaboratively by SMEs and other entities in affected regions and restoration work on joint equipment and facilities of small business associations and similar organizations. The central government is also subsidizing restoration work on the facilities,



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etc. of associations and chambers of commerce and industry that have been affected by the earthquake.

## 2. Redevelopment of trading estates in affected regions (SMRJ subsidy program)

SMRJ is setting up temporary stores, plants, and other facilities in areas that have been severely affected by the Great East Japan Earthquake. In order to identify specific demands, staff from the SME Agency, Tohoku Bureau of Economy, Trade and Industry, and SMRJ have also been sent to the affected regions to survey the concrete needs of local governments and SME organizations.

## 3. Loans for restoration and development of facilities and equipment

Regarding loans provided by SMRJ and the prefectures to fund the development of facilities in industrial parks by associations and other bodies affected by the earthquake (“advancement loans”), deferral periods have been extended and reductions in the proportion of the burden borne by prefectures and businesses have been increased. SMRJ and the prefectures have also jointly established a system of interest-free loans to provide funding to businesses with approved development projects for disaster restoration work on the joint facilities of small business associations, etc., and businesses that are moving into temporary stores, plants, and other facilities set up by SMRJ. In order to improve the electric power situation, a system of loans to fund the installation of equipment to save energy, use alternative energies, or generate power independently by business cooperatives and their members has been established.

## 4. Waiving, grace, and extension of repayment debts for advancement loans

Regarding loans for the development of facilities at industrial parks by associations and other bodies that are provided by SMRJ and prefectures (“advancement loans”), the prefectures and SMRJ have been requested to take swift action to waive debts, grant grace, and extend the deadlines for repayment of loans to businesses that are struggling to remain in business due to earthquake-related damage to facilities and assets that have been developed.

## 5. Shopping District Practical Development Program (fiscal 2010 budget: ¥400 million; fiscal 2010 supplementary budget: included in ¥200 million); Shopping District Practical Activity Program (disaster restoration work on shopping district and arcade demolition, etc.) (first fiscal 2011 supplementary budget: included in ¥400 million)

Subsidies have been provided under the fiscal 2010 budget and the fiscal 2011 initial budget to repair facilities and remove debris and other obstructions at

shopping districts affected by the earthquake.

Subsidies have also been provided under the fiscal 2011 supplementary budget for the dismantling of arcades and repair of severely damaged facilities requiring considerable time to perform.

## Section 3 Employment support

### ● Specific measures

#### 1. Employment support for victims

In order to help victims find employment, joint job fairs are being progressively organized in the affected regions, and lists of members of the New Graduate Employment Support Project that are actively employing new graduates and other people in affected regions are published as the occasion arises.

The “Dream Match Project” (SME Hiring Capability Enhancement Program) launched to match SMEs with job seekers such as new graduates who have yet to receive job offers or have had their job offers withdrawn compiles information on job offers paying particular attention to the needs of new graduates and other job seekers in affected regions. This makes it possible for job seekers to refine their job searches to look specifically for employers that make special provision for students affected by the earthquake, such as by allowing them to attend interviews in their ordinary clothes and or by interviewing applicants by phone.

#### 2. Employment adjustment subsidies

In the event that an employer that has to downsize for financial reasons due to the effects of the Great East Japan Earthquake temporarily lays off workers in order to protect their jobs, a subsidy is provided equivalent to two thirds (four fifths in the case of SMEs) of the cost of allowances, etc. incurred as a result of such temporarily layoffs.

Special measures such as easing of the conditions for payment of employment adjustment subsidies have also been adopted to assist employers with business establishments located in regions subject to the Disaster Relief Act (excluding Tokyo).

#### 3. Employment insurance unemployment benefits

Action was taken to enable payment of unemployment benefits to workers who are unable to receive wages even if they have not lost their jobs. This was implemented through special provisions under the employment insurance system for areas that have been designated as having suffered severe damage, and applies to workers at business establishments that have had to introduce temporary layoffs due to stoppages resulting from damage caused by the earthquake or their being locating in controlled zones, planned evacuation zones, or emergency evacuation-ready zones affected by the nuclear crisis at TEPCO’s

Fukushima Daiichi Nuclear Power Plant.

#### 4. Creation of Victims' Employment Development Subsidy Program

A Victims' Employment Development Subsidy Program has been set up to pay subsidies to employers that hire workers who lost their jobs due the Great East Japan Earthquake and job seekers living in affected regions as a result of referrals from "Hello Work" employment offices and similar agencies, provided that such workers are expected to be employed continuously for a period of at least one year.

### Section 4 Tax-based support

#### ● Specific measures

##### 1. Special provisions for loss of business assets due to the earthquake

Provision has been made to allow the inclusion of loss of business assets due to the earthquake in necessary expenses for the purpose of calculating business income in 2010. In such case, taxpayers filing blue returns are allowed to carry back loss to 2009 in the event of a net loss in income in 2010 (including loss of business assets due to the earthquake). Net losses arising from the loss of business assets due to the earthquake can additionally be carried back for a period of five years.

##### 2. Refunds of income tax as a result of carryback of loss due to the earthquake

In the event that a corporation files a loss for the business year ending between March 11, 2011, and March 10, 2012, includes loss due to the earthquake, it may apply for a tax refund by carrying back in full the amount of the loss caused by the earthquake for two years.

##### 3. Special depreciation of replacement of disaster-damaged assets, etc.

From March 11, 2011, to March 31, 2016, taxpayers are allowed a special depreciation on: (1) assets purchased to replace assets damaged or destroyed by the earthquake (buildings, structures, machinery and equipment, vessels, aircraft, and vehicles), and (2) assets purchased in affected regions.

Depreciation rates on purchases up to March 31, 2014 are as follows: 15% for buildings and structures (18% in the case of SMEs), and 30% for machinery and equipment, vessels, aircraft, and vehicles (36% in the case of SMEs). The rates for purchases made on or after April 1, 2014, will be two thirds of the above rates.

##### 4. Special provision regarding base period for assessment of land in designated regions

Where the due date for filing inheritance and gift tax

returns for property acquired before the earthquake falls after the earthquake, provisions have been put in place to base the assessment of land and other property in designated regions and certain non-listed shares and similar assets on their value after the earthquake and to allow the extension of the due date.

### Section 5 Enhancement of management support PR consulting services

#### ● Specific measures

##### 1. Establishment of special help desks

Special help desks have been set up at the JFC, Shoko Chukin, credit guarantee corporations, chambers of commerce and industry, federations of associations of commerce and industry, the National Federation of Small Business Associations, branches of SMRJ, and Bureaus of Economy, Trade, and Industry across Japan. JETRO has also set up an emergency advice service and provides information on subjects such as import regulations in other countries and radiation measurement and inspection agencies on its website. Further support is provided by the Patent Office, which has set up a dedicated help desk to provide advice on procedures and other matters concerning IP affected by the earthquake, and handles queries in close collaboration with the general IP support services provided by each prefecture.

##### 2. Navi Dial helpline for SMEs

To help SMEs that do not know where to go for advice following the Great East Japan Earthquake, a single "Navi Dial" SME helpline has been launched that connects the caller to the nearest Bureau of Economy, Trade and Industry. This is open everyday, including Saturdays and holidays.

##### 3. Hotline for building contractors affected by the earthquake

A hotline has been launched for building contractors affected by the earthquake. This provides access to expert advice provided by SME management consultants, lawyers, and other professionals concerning ascertaining the state of management and assets, rearrangement of debts and credits, development of mid- to long-term business plans, and other matters.

##### 4. Dispatch of support experts to assist with recovery and reconstruction (first fiscal 2011 supplementary budget: ¥990 million)

Support centers have been established by SMRJ in cities in the affected regions (Morioka, Sendai, and Fukushima). These dispatch experts and handle consultations from SMEs. Associations and chambers of commerce and industry have also launched help

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desks and travelling advice services, and dispatch advisors to provide necessary advice.

**5. Organization of advice events in affected regions (financial advice)**

The JFC, Shoko Chukin, and credit guarantee corporations provide a visiting advice service to give SMEs access to financial advice in prefectures in the affected regions (Aomori, Iwate, Miyagi, Fukushima, etc.).

**6. Enhancement of public information arrangements**

Unified bulletins containing information on support provided by the SME Agency, the Government in general, and other bodies to help enterprises cope with the effects of the Great East Japan Earthquake are emailed to SME support providers (16 such bulletins had been sent out as of the end of May 2011), and related organizations have been requested to provide information to local organizations, members, business partners, and SMEs in general.

**7. Distribution of *Guide to Support Measures for Small and Medium Enterprises***

The first two versions of the *Guide to Support Measures for Small and Medium Enterprises*, which provides an accessible introduction to the various financial, employment, and tax measures available to SMEs affected by the earthquake, has been followed by a third version, which incorporates details of funding allocated for purposes such as restoration and development of business facilities under the first fiscal 2011 supplementary budget. (This had a total print run of 443,000.) 400,000 leaflets summarizing enhancements to support under the first fiscal 2011 supplementary budget were also produced, and these were distributed to SME support providers and financial institutions in the affected regions and the rest of the country to bring them to the attention of SMEs in general.

## **Section 6 Other measures**

● **Specific measures**

**1. Establishment of Great East Japan Earthquake SME Support Liaison Council**

The council, whose purpose is to contribute to the consideration and implementation of SME measures needed in view of the present severe impact of the earthquake on swathes of SMEs nationwide, consists of government officials and representatives of SME-related organizations who meet to share information and exchange views on subjects including the state of damage suffered by SMEs, progress on providing relief to affected SMEs, and the kinds of measures that need to be adopted in the future. It is chaired by the Parliamentary Secretary for Economy, Trade and

Industry, and met for the first time on March 22 and for the second time on March 31, 2011. The third and fourth meetings on April 13 and May 16 were also attended by officials and representatives of the FSA, MHLW, MAFF, MLIT, and related industry associations.

**2. Expansion of SMEs' access to orders from the public sector**

In order to give SMEs affected by the earthquake greater opportunities to receive orders from the public sector, ministries and agencies have been requested to provide detailed advice and actively provide order information on orders to affected SMEs, and where necessary to take necessary steps including the carrying-over of contracts that cannot feasibly be executed by the end of fiscal 2010. Ministries and agencies were also requested to endeavor to increase opportunities for SMEs in affected regions to receive orders relating to restoration work funded under the first fiscal 2011 supplementary budget.

**3. Parent businesses requested to prioritize placement of orders with affected SMEs**

On April 22, 2011, some 22,000 parent businesses were requested to maintain as far as possible existing business relations and give priority to placing orders with small and medium subcontractors that have been affected by the earthquake. They were also requested to do business in an appropriate manner based on objective, scientific evidence without being led astray by rumors arising from the nuclear crisis at TEPCO's Fukushima Daiichi Nuclear Power Plant.

**4. Subsidies to help defray trade facilitation costs (first fiscal 2011 supplementary budget: ¥670 million)**

Subsidies were provided to help defray the cost of radiation testing of exports by government-designated inspection agencies as part of government action to prevent disruption of physical distribution by harmful rumors and facilitate trade. (The subsidy rate was set at 90% for SMEs.)

**5. Support provided by NEXI**

On April 11, 2011, NEXI announced the following measures to assist SMEs affected by the earthquake: 1) postponement of insurance policy procedures, 2) deferment, reduction, and waiver of insured parties' obligations, and 3) reduction and elimination of the financial burden on insured parties. In order to limit the financial damage caused by harmful rumors, NEXI also published details of concrete cases of losses arising from the restriction or prohibition of import of goods on the grounds of radioactive contamination that would be covered by trade insurance. These include cases where imports are limited or prohibited by the introduction of new regulations, and cases of

illegal or discriminatory treatment by the governments of destination countries. An advice service was also set up in NEXI to provide advice (available also to non-enrollees in trade insurance) on how to deal with harmful rumors.

**6. Relief measures regarding IP procedures**

To assist applicants who were unable to complete the necessary procedures to request examinations and pay patent fees for patent applications due to the effects of the earthquake, applicants can now apply to have the period for completion of such procedures extended to August 31, 2011. Regarding procedures for foreign patent applications, requests were made to foreign IP agencies to implement relief measures, and special measures have been adopted by 45 countries and regions.

**7. Support for power-saving measures to limit power demand (first fiscal 2011 supplementary budget: ¥3.70 billion)**

In order to promote exhaustive steps to eliminate the

serious gap between power supply and demand in the summer, experts made individual visits to small-scale users with high power-saving potential to explain how they could save power given their operational demands, and businesses were additionally encouraged to draw up action plans to save power.

**8. Organization of briefings for foreign governments and industries**

Relevant ministries, agencies, and organizations, including METI, the Ministry of Foreign Affairs, and JETRO, are working together to organize briefings for foreign governments and foreign-affiliated enterprises to explain and provide up-to-date information on the state of the Japanese economy following the earthquake and the situation regarding the crisis at TEPCO's Fukushima Daiichi Nuclear Power Plant. As of May 31, 2011, information had been provided to other countries through a variety of channels, including briefings held in 12 countries/regions and 15 cities. Within Japan, briefings are being held in Tokyo and Osaka.



# **SME policies planned for fiscal 2011**



**This section gives only a broad outline of program content and spending.  
Details are subject to change.**

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## Chapter 1 Wide-ranging support for SMEs

### Section 1 Facilitation of financing

Macro-level statistical indicators such as the financial position DI show that the financing conditions facing Japan's SMEs picked up from the beginning of fiscal 2010, and had recovered to their pre-Lehman crisis level just before the Great East Japan Earthquake. Owing to the sharp deterioration in March 2011 when the earthquake struck, however, full-scale financing support remains necessary.

This support will be delivered through two specific mechanisms: credit guarantees and "type 5 safety net guarantees" for SMEs in industries that have experienced a particular deterioration of business conditions. Regarding credit guarantees, "refinancing guarantees" and loan modifications will be promoted and 100% guarantees of small-scale loans to small enterprises will be maintained. Access to type 5 safety net guarantees, on the other hand, will be increased by expanding the number of industries covered from 48 (which is what coverage was initially set at in the first half of fiscal 2011) to 82 (in principle, all types of industry) in view of the impact of the Great East Japan Earthquake. Support will also continue to be delivered through lending, including the provision of safety net loans by the Japan Finance Corporation (JFC) as well as the promotion of refinancing and loan modifications.

SMEs' new funding needs will also be accurately ascertained, and the provision of guarantees and loans based on appropriate assessment of individual SMEs' business circumstances, credit risks, and other factors will be promoted.

Taking advantage of the one-year extension to the period of effect of the Act concerning Temporary Measures to Facilitate Financing for SMEs ("SME Financing Facilitation Act"), support will also be provided in collaboration with the Financial Services Agency (FSA) to facilitate the financing of SMEs by private financial institutions and similar sources of finance.

#### ● Specific measures

##### 1. Operation of credit insurance system (fiscal 2011 budget: ¥85.20 billion)

Full financial support will be provided to SMEs through the promotion of loan modifications and refinancing guarantees, operation of the small-loan guarantee system for small enterprises, provision of safety net guarantees to SMEs that have experienced a particularly severe deterioration of business conditions, and operation of the guarantee program for startup founders. (Continuation) (See p. 310.)

##### 2. Promotion of safety net financing

Safety net lending will continue to be made to provide full financial support to SMEs experiencing a temporary deterioration of business conditions due to changes in the social or economic environment, etc. In particular, interest rates will be waived or reduced for businesses that have to pay interest rates of at least 3% due to deteriorating business conditions or similar reasons. (Continuation) (See p. 310.)

##### 3. Promotion of loan modifications and exercising of consulting functions by financial institutions, etc.

As a result of the entry into effect on March 31, 2011, of the Act for Partial Revision of the Act Concerning Temporary Measures to Facilitate Financing for SMEs, the SME Financing Facilitation Act will remain in effect until the end of fiscal 2011. Coinciding with this, the following operational improvements will be made:

- Financial institutions will be encouraged to exercise their consulting functions by providing assistance such as business advice and guidance and assistance with the development of business restructuring plans to borrowers when loan modifications, etc. are arranged.
- The quantity of materials that financial institutions are required to disclose and report will be significantly reduced (further easing of requirements for financial institutions and similar agencies in areas affected by the Great East Japan Earthquake at the end of May 2011).

The purpose of these measures is to embed the provision of full consulting support by financial institutions (delivered in the form of business advice and guidance and assistance with restructuring planning provided by financial institutions in the course of their regular inspections and supervision) while at the same time facilitating lending to SMEs (including to those affected by the Great East Japan Earthquake), thereby leading to improvements in SMEs' management and, in turn, their ability to repay their loans. (Continuation) (See p. 311.)

##### 4. Accommodation of applications for alteration of lending conditions (Continuation) (See p. 311.)

##### 5. Implementation of Current Asset-backed Guarantee Program (fiscal 2011 budget: included in ¥81.30 billion) (Continuation) (See p. 311.)

##### 6. Provision of subordinated lending (fiscal 2011 budget: ¥36.00 billion) (Continuation) (See p. 311.)

##### 7. *Marukei* loans (fiscal investment and loan program)

(fiscal 2011 budget: ¥3.60 billion)

Enhancements to *Marukei* lending implemented in fiscal 2010, such as the increase of the loan ceiling, will be extended through to the end of fiscal 2011. (Continuation) (See p. 311.)

8. **Small Enterprise Equipment Funding Program (equipment fund loans and equipment lending) (fiscal investment and loan program) (Continuation) (See p. 311.)**
9. **Investment by Small and Medium Business Investment & Consultation Companies (Continuation) (See p. 311.)**
10. **Securitization of SMEs' receivables from exports covered by trade insurance (Continuation) (See p. 312.)**
11. **Support for SMEs in Okinawa (fiscal investment and loan program) (Continuation) (See p. 312.)**

## **Section 2 Strengthening of financial underpinnings**

In order to support SMEs' varied and dynamic growth and development, fine-grained tax measures will be implemented to strengthen their financial underpinnings.

Measures to help strengthen SMEs' financial underpinnings and raise their productivity have also been incorporated in the outline for tax revisions in fiscal 2011.

## **Section 3 Measures to make subcontracting transactions fair and proper**

In order to ensure that subcontracting transactions are conducted in a fair and proper manner so that an unreasonable burden does not fall on small and medium subcontractors owing to their relatively weak position compared with parent enterprises, small and medium subcontractors will be protected by clamping down on unfair subcontracting transactions and preventing legal violations from occurring.

Action will therefore be taken to strictly enforce the Act against Delay in Payment of Subcontracting Proceeds, Etc. to Subcontractors ("Subcontractor Payment Act").

Small and medium subcontractors' development will also be promoted by providing support to help them develop wider markets, such as through the provision of information on placement and receipt of orders and organization of business negotiation events for subcontractors seeking to find new business partners.

## **Specific measures**

1. **Stricter enforcement of the Subcontractor Payment Act**  
Document investigations and on-the-spot investigations will be conducted pursuant to the Subcontractor Payment Act. Inspection resources will also be boosted in fiscal 2011 by increasing the complement of subcontracting proceed inspectors at METI from 84 to 98 in order to strengthen the act's enforcement. (Continuation) (See p. 312.)
2. **Strengthening of consultation system and raising of awareness of importance of making subcontracting transactions fairer (fiscal 2011 budget: included in ¥600 million)**  
(Continuation) (See p. 313.)
3. **Development of small and medium subcontractors**
  - (1) Market development assistance through subcontracting trade mediation and organization of business negotiation events (fiscal 2011 budget: included in ¥50 million)  
(Continuation) (See p. 314.)
  - (2) Requesting of consideration toward small and medium subcontractors (fiscal 2011 budget: included in ¥600 million)  
(Continuation) (See p. 314.)

## **Section 4 Support for business rehabilitations and successions**

In order to assist business successions at SMEs, a bill to partially amend the Act on Special Measures for Regeneration of Industrial Vitality and Innovation of Industrial Activities ("Act on Special Measures for Industrial Revitalization") was passed during the 177th ordinary session of the Diet and promulgated on May 25, 2011. More specifically, financial support will be provided to assist SMEs that take over businesses, administrative agencies will provide assistance to facilitate the inheritance of permits and licenses, and measures will be taken to enable local SME support providers to give SMEs advice on business successions.

In order to help SMEs to turn their businesses around, resident experienced experts in business rehabilitation at SME revitalization support councils will continue to handle queries from SMEs about business rehabilitation and advice on solutions. When it is considered that SMEs will need to radically overhaul their finances and operations in order to successfully revitalize, support teams consisting of these experts alongside outside experts, such as SME consultants, certified public accountants, and attorneys, will provide support by, for example, conducting surveys of their finances and operations ("due diligence") and assisting in the formulation of rehabilitation plans and coordination with financial institutions. The system of approval of plans for SME rehabilitation through

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succession under the Act on Special Measures for Industrial Revitalization will also be maintained as one means of assisting business rehabilitations.

In order to maintain vitality and secure employment in regional economies, support will continue to be provided under the Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises (“Management Succession Facilitation Act”) through special exemptions to the Civil Code, financial assistance, and tax measures, and comprehensive support will be provided for SME business successions by, among other means, raising awareness of the business succession system.

Regarding tax-based support, continued study will be made of measures to further improve schemes and steps to secure more balanced and fair taxation taking into account the state of granting of approvals, etc. under the Management Succession Facilitation Act.

#### ● **Specific measures**

##### **1. Support to facilitate business successions at local SMEs**

Support arrangements will be bolstered by adding business succession mediation support services to the rehabilitation support services already provided by the support providers established pursuant to the Act on Special Measures for Industrial Revitalization in the 47 prefectures in order to facilitate business successions at SMEs and contribute to regional economies’ independent development and employment growth. In conjunction with this, action will be taken to provide financial assistance to SMEs that are interested in inheriting businesses and to facilitate their inheritance of permits and licenses. (New)

##### **2. SME revitalization support councils (fiscal 2011 budget: ¥4.20 billion)**

(Continuation) (See p. 314.)

##### **3. Plans for SME rehabilitation through succession (“second company” method)**

(Continuation) (See p. 314.)

##### **4. SME revitalization funds**

(Continuation) (See p. 314.)

##### **5. Comprehensive support under the Management Succession Facilitation Act**

(Continuation) (See p. 314.)

##### **6. Support to facilitate business successions (SMRJ subsidy program)**

(Continuation) (See p. 315.)

##### **7. Business succession loans (fiscal investment and loan program)**

(Continuation) (See p. 315.)

##### **8. System of deferral of payment of inheritance tax and gift tax on non-listed shares (business succession taxation scheme) (taxation scheme)**

(See p. 316.)

## **Section 5 Human resource and employment measures**

Programs to eliminate the employment mismatch between enterprises that are interested in hiring and young job seekers (including the organization of internships at SMEs, provision of online matching support, identification of SMEs that are eager to hire at Job Cafés, and operation of training programs for SME employees and SME support staff) will continue to be implemented.

Tax measures will also be implemented to allow enterprises that meet certain requirements, including having at least five ordinary employees (two in the case of SMEs) covered by employed insurance and achieving job growth of at least 10%, a tax credit of ¥200,000 per extra ordinary enrollee in employment insurance.

In addition, employment adjustment subsidies (SME emergency employment stabilization subsidies) will be provided to employers who maintain employment of workers by such means as temporary layoffs or transfers in order to prevent unemployment and stabilize employment where SMEs have to downsize due to fluctuations in business conditions or other economic factors.

#### ● **Specific measures**

##### **1. New Graduate Employment Support Project (Continuation) (See p. 315.)**

##### **2. Programs to showcase SMEs’ attractions and enhance their hiring abilities (fiscal 2011 budget: ¥300 million)**

Various programs will be pursued in order to eliminate the employment mismatch between university students and SMEs, including the showcasing of SMEs’ attractions to university students through collaboration in education by industry and universities, online job matching, and joint fairs. (New)

##### **3. Job Cafés Project**

(Continuation) (See p. 316.)

##### **4. Joint job fairs**

(Continuation) (See p. 316.)

##### **5. Practical training programs**

(Continuation) (See p. 316.)

##### **6. Human resource development at SME Universities (SMRJ subsidy program)**

(Continuation) (See p. 316.)

##### **7. Maintenance of workers’ employment (fiscal 2011**

**budget: ¥392.70 billion)**

(Continuation) (See p. 316.)

**8. Support for creation of new employment opportunities leveraging SMEs' dynamism (fiscal 2011 budget: ¥3.29 billion)**

Support will continue to be provided for the hiring of human resources and creation of attractive work environments at SMEs that will play a leading role in the creation of job opportunities. This support will take the form of subsidies for SMEs that take on new workers due to starting up or moving into growth fields identified in the New Growth Strategy that have a genuine need for assistance with human resources (health, environment, and related manufacturing fields), and subsidies for initiatives undertaken by associations of SMEs doing business in these fields in order to improve employment management. (Continuation) (See p. 317.)

**9. SME startup subsidies for regional revitalization (fiscal 2011 budget: ¥1.67 billion)**

(Continuation) (See p. 317.)

**10. Tax system to promote employment (taxation scheme)**

Tax measures to allow enterprises that meet certain requirements, including having at least five ordinary employees (two in the case of SMEs) covered by employed insurance and achieving job growth of at least 10%, a tax credit of ¥200,000 per extra ordinary employee in employment insurance have been incorporated in the outline for tax revisions in fiscal 2011. (New)

## Section 6 Measures to stabilize business

As the business environment facing SMEs is expected to remain severe, the Mutual Relief System for the Prevention of Bankruptcies of Small and Medium Enterprises and the Mutual Relief Scheme for Small-scale Enterprises operated by the Organization for Small and Medium Enterprises and Regional Innovation, Japan (SMRJ) will be steadily administered and promoted in order to stabilize the business of SMEs.

In order to help solve the various management problems of SMEs facing business crises, support will continue to be provided through the Japan Chamber of Commerce and Industry and the Central Federation of Societies of Commerce and Industry to facilitate the delivery of consultation services by the special business stability advice centers established in key chambers of commerce and industry and prefectural federations of societies of commerce and industry across Japan. At the same time, wider adoption of SME business continuity plans (BCPs) will be promoted and low-interest loans will be provided to fund the development of disaster prevention facilities in accordance with such BCPs in order to minimize business stoppages and enable operations to be resumed as quickly as possible.

### ● Specific measures

**1. Mutual Relief System for the Prevention of Bankruptcies of Small and Medium Enterprises (Business Safety Mutual Relief System) (SMRJ subsidy program)**

Several steps will be taken in accordance with the Act for Partial Revision of the Act on Mutual Relief Systems for the Prevention of Bankruptcies of Small and Medium-sized Enterprises (Act No. 25, 2010), passed during the 174th ordinary session of the Diet and promulgated on April 21, 2010, including the raising of the ceiling on loans of mutual relief funds, extension of the maximum repayment period, and creation of allowances for early repayment in order to enhance the system's safety net functions. At the same time, steady action will continue to be taken to encourage enrolment in the system and provide loans of mutual relief funds. (Continuation) (See p. 317.)

**2. Mutual Relief Scheme for Small-scale Enterprises (SMRJ subsidy program)**

(Continuation) (See p. 317.)

**3. Special Business Stability Advice Centers (fiscal 2011 budget: included in ¥2.43 billion)**

(Continuation) (See p. 317.)

**4. Promotion of wider adoption of BCPs by SMEs**

(Continuation) (See p. 318.)

## Chapter 2 Supporting the growth of motivated SMEs

### Section 1 Support for development of operations overseas

If SMEs are to develop in Japan, they urgently need to enter Asia's rapidly growing markets to secure demand. Growing economic globalization is at the same time rendering the distinctions between domestic and international business increasingly redundant, making it

important that SMEs develop their operations overseas in order to respond to international competition. Fine-grained support will be delivered in regions throughout Japan through collaboration with the Ministry of Agriculture, Forestry and Fisheries (MAFF), Financial Services Agency (FSA), Ministry of Finance (MOF), and other related agencies under the direction of the SME Overseas Development Support Council established

in October 2010. Alongside such support, the Japan External Trade Organization (JETRO), SMRJ, and other related organizations will provide support to help SMEs to develop operations overseas.

● **Specific measures**

1. **SME Overseas Development Support Council**  
(Continuation) (See p. 318.)
2. **SME Overseas Development Support Program (subsidies for JETRO/SMRJ) (fiscal 2011 budget: ¥2.50 billion)**  
(Continuation) (See p. 318.)
3. **JAPAN Brand Development Assistance Program (fiscal 2011 budget: ¥580 million)**  
(Continuation) (See p. 318.)
4. **Overseas information services (fiscal 2011 budget: ¥70 million)**  
(Continuation) (See p. 319.)
5. **Funding to develop operations overseas (fiscal investment and loan program)**  
Responding to the recent growth in demand among SMEs for funds to develop operations overseas, eligibility for loans will be expanded and interest rates on loans will be revised in fiscal 2011.  
(Continuation) (See p. 319.)
6. **Reduction and waiver of fees for credit checks of SMEs using trade insurance**  
(Continuation) (See p. 319.)
7. **Support for security export control**  
In order to improve the effectiveness of management of export of goods and provision of technology subject to security concerns under the Foreign Exchange and Foreign Trade Act, support will be provided for the development of voluntary administration structures for security export control at SMEs with products and technologies that could be used to develop weapons of mass destruction through such means as the organization of briefings and dispatch of experts.  
(New)
8. **Activities to expand and publicize use of trade insurance by SMEs (seminars, consultation events, etc.)**  
(Continuation) (See p. 319.)
9. **Promotion of BOP business (fiscal 2011 budget: included in ¥2.16 billion)**  
(Continuation) (See p. 319.)
10. **Other support for development of operations overseas**

(Continuation) (See p. 319.)

## **Section 2 Support for startups, changes of business, and development of new business**

In order to promote startups and changes of business, lending and guarantees by public financial institutions will be steadily implemented and partially expanded, while investments will be steadily made in private-sector investment funds by SMRJ. Use will also continue to be made of the angel tax system to promote investment in newly founded enterprises by individual investors.

In order to help SMEs to create new business with the potential to generate new innovations, active support will also continue to be provided for initiatives undertaken by SMEs such as the development of creative new products and services using frameworks such as agricultural-commercial-industrial collaborations.

Support will also continue to be provided to help SMEs develop their markets. In order to assist the cultivation of markets for attractive new products and services created as a result of initiatives such as the above, for example, support will be provided to further raise the quality of products through trial marketing, and positive support will be provided to assist exhibition at trade fairs.

● **Specific measures**

1. **New Startup Loan Program (fiscal investment and loan program)**  
(Continuation) (See p. 320.)
2. **Founders' guarantees (fiscal 2011 budget: included in ¥81.00 billion)**  
(Continuation) (See p. 320.)
3. **Loan Program for Supporting Female, Young, and Senior Entrepreneurs (fiscal investment and loan program)**  
(Continuation) (See p. 320.)
4. **Fund Investment Program (Startup Support Fund, SME Growth Support Fund)**  
(Continuation) (See p. 320.)
5. **Angel tax system (taxation scheme)**  
(Continuation) (See p. 320.)
6. **New Business Activity Promotion Support Program (fiscal 2011 budget: ¥3.14 billion)**  
(Continuation) (See p. 320.)
  - (1) New Partnership Support Program
  - (2) Support for development of new businesses using regional resources
  - (3) Agricultural-Commercial-Industrial Collaboration Promotion Support Program

7. **Management Innovation Support Program**  
(Continuation) (See p. 321.)
8. **Support for creation of new businesses (SMRJ subsidy program)**  
(Continuation) (See p. 321.)
9. **Support for the creation of new business utilizing regional strengths (fiscal 2011 budget: included in ¥2.43 billion)**  
In order to promote local small enterprises' development of a presence in nationwide markets, wide-ranging support will be provided for projects pursued collaboratively by organizations such as societies and chambers of commerce and industry to develop local specialties, tourism resources, and markets for them, and for projects undertaken intensively for a fixed period to attract customers making concerted use of regions' various attractions. Support will also be provided to revitalize regional economies and create employment for "community businesses," i.e., projects undertaken by commerce and industry associations in unison with small enterprises, local governments, and other entities that take a resident-oriented approach to the resolution of emerging local challenges in the provinces. (New)
10. **Support for the provision of opportunities to develop markets for local produce (fiscal 2011 budget: ¥100 million)**  
(Continuation) (See p. 321)
11. **Program to promote the creation of new local growth industries (fiscal 2011: ¥1.30 billion)**  
In order to revitalize and enhance the competitiveness of regional economies, support will be provided for initiatives that contribute to the creation and development of new growth industry clusters through the active use of regions' various strengths, advantages, and potential and the formation and use of industry-academic-government networks, etc. (New)
12. **Support for cultivation of markets through exhibitions, business negotiation events, etc. (SMRJ subsidy program)**  
(Continuation) (See p. 322.)
13. **Development of human resources by agricultural-commercial-industrial collaborations, etc.**  
(Continuation) (See p. 322.)
14. **Market Development Coordination Program (SMRJ subsidy program)**  
(Continuation) (See p. 322.)
15. **Market Navigator Startup Support Program (SMRJ subsidy program)**  
(Continuation) (See p. 322.)
16. **Support to encourage enterprises to locate in the regions (fiscal 2011 budget: ¥1.68 billion)**  
Budgetary support will be provided in fiscal 2011 for initiatives including the formation of industrial clusters in growth industries, the development of facilities and other hardware, and activities to develop human resources for the purpose of revitalization.  
(Continuation) (See p. 322.)
17. **Support to revitalize industries that attract customers and stimulate exchanges in the regions (fiscal 2011 budget: included in ¥2.00 billion)**  
Support will be provided for geographically wide-ranging, joined-up initiatives, undertaken with the involvement of distinctive local industries, manufacturing, city centers, and other related parties, to attract demand to regions and stimulate industrial exchanges based on distinctive strategies for differentiation. Past cases of such initiatives will additionally be analyzed and policies to increase tourism and attract customers will be compiled. (New)
18. **Traditional Craft Product Subsidy Program (fiscal 2011 budget: ¥0.94 billion)**  
(Continuation) (See p. 322.)

### Section 3 Measures concerning public demand

In order to expand opportunities for SMEs to receive orders from the public sector, a "Policy on State Contracts with Small and Medium Enterprises" will be established and measures will be fully publicized.

#### ● Specific measures

1. **Establishment and publicizing of "Fiscal 2011 Policy on State Contracts with Small and Medium Enterprises" (fiscal 2011 budget: included in ¥600 million)**  
In order to expand opportunities for SMEs to receive orders from the public sectors, a "Policy on State Contracts with Small and Medium Enterprises" will be adopted and publicized by such means as requesting appropriate action by local governments and organizing information sessions.  
(Continuation) (See p. 323.)
2. **Launch of "Public Demand Information Portal Site" to expand opportunities for SMEs to receive orders from the public sector (fiscal 2011 budget: included in ¥600 million)**  
(Continuation) (See p. 323.)

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## Section 4 Enhancement of technological capabilities

In order to strengthen Japanese manufacturing's international competitiveness and encourage the creation of new business, support will continue to be provided for SME activities extending from R&D through to trial manufacture under the Act on Enhancement of Small and Medium-sized Enterprises' Core Manufacturing Technologies. SMEs' engagement in new research and technological challenges will also be promoted through tax-based measures and the provision of support for new initiatives to research, develop, and commercialize medical equipment.

### ● Specific measures

- 1. Comprehensive support for enhancement of SMEs' core manufacturing technologies**  
(Continuation) (See p. 323.)
- 2. Strategic Core Technology Advancement Program (fiscal 2011 budget: ¥15.00 billion)**  
Particular recognition will be given to plans that are clearly related to and contribute to the promotion of strategic fields identified in the New Growth Strategy (green innovation, life innovation, etc.) and initiatives that are highly likely to evolve into new business.  
(Continuation) (See p. 323.)
- 3. Low-interest loans for SMEs engaging in trial manufacture and development of new products/ technologies and development of new markets (fiscal investment and loan program)**  
(Continuation) (See p. 323.)
- 4. Support under the Small Business Innovation Research (SBIR) Program**  
Provision of central government-allocated R&D spending to SMEs will continue to be expanded and commercialization of the results of technological development activities will be promoted by such means as the designation of special subsidies for the development of new technologies leading to the creation of new industries, setting of targets for expenditures, and formulation of policies on measures to support the commercialization of results of development using specified subsidies. In addition, in order to promote the commercialization of the outputs of technological development, action will be taken to inform and encourage SMEs to use the commercialization support available, including a database of enterprises selected for special subsidies that is maintained to publicize their technological capabilities, and the provision of low-interest loans by the JFC. At the same time, R&D projects will be steadily implemented by phased competitive selection under the SBIR Program.

(Continuation) (See p. 323.)

- 5. Regional Innovation R&D Program (fiscal 2011 budget: ¥1.00 billion)**  
(Continuation) (See p. 324.)
- 6. Subsidies to realize innovations (NEDO subsidy program)**  
The New Energy and Industrial Technology Development Organization (NEDO) will establish a new scheme to identify developments in fields such as green innovation and life innovation requiring early practical application and to advertise for innovative solutions. At the same time, support for carve-out ventures set up to commercialize enterprises' dormant untapped technologies will be boosted. (The Interdisciplinary Cross-Industry Nanotech Challenge Program and the Program to Promote Development Work to Commercialize Assistive Technologies will be combined in fiscal 2011.) (Continuation) (See p. 324.)
- 7. Support to raise private enterprises' R&D capabilities and facilitate development of commercial applications (fiscal 2011 budget: ¥500 million)**  
(Continuation) (See p. 324.)
- 8. R&D promotion tax system (for strengthening the technological bases of SMEs) (taxation scheme)**  
(Continuation) (See p. 324.)
- 9. Support for partnerships between hospitals and enterprises to develop and improve problem-solving medical equipment (fiscal 2011 budget: ¥1.00 billion)**  
(Continuation) (See p. 324.)

## Section 5 Support for tackling business challenges

The growing complexity of the business challenges that face SMEs is making it difficult for sufficient support to be delivered solely through individual SME support providers' routine advice arrangements. New programs will therefore be implemented to strengthen the SME management support structure by developing a network of wide-ranging support providers centered around regional Bureaus of Economy, Trade and Industry in order to strengthen collaboration between them and raise their support capabilities.

Support for small business associations and similar organizations will also continue to be provided through the National Federation of Small Business Associations.

### ● Specific measures

- 1. Program to strengthen SME support network (fiscal**

**2011 budget: ¥3.96 billion)**

The SME management support structure will be strengthened by developing a network consisting of a wide range of support providers (targeting approximately 3,000 nationwide) and built around regional Bureaus of Economy, Trade and Industry in order to strengthen collaboration between them and raise their support capabilities. More specifically, regional Bureaus of Economy, Trade and Industry will select experts with a wealth of experience as well as specialist knowledge of SME support to act as “traveling advisers.” These traveling advisers will visit the network’s support providers to enable the direct provision of specialist advice as a part of these providers’ advice services. Where necessary, experts will also be dispatched to help resolve the sophisticated and specialist challenges faced by SMEs. (New)

2. **Support for collaborative organizations of SMEs (fiscal 2011 budget: ¥670 million)**  
(Continuation) (See p. 325.)
3. **Support for capital investment through advancement programs integrated with business support**  
Syndicated lending to SMEs by municipalities approved under the General Special Zone Act and SMRJ will be made possible. (Hitherto, syndicated loans could only be made by prefectures and SMRJ.)  
(Continuation) (See p. 325.)

## **Section 6 Revitalization of shopping districts and city centers**

While the retail environment is growing increasingly severe, rising concerns about the functional decline of local communities as the birthrate declines and the population ages are fueling growing hopes among local residents that shopping districts will play a significant role in maintaining and developing their local communities due to their close local ties with them. Based primarily on the Local Shopping District Revitalization Act, therefore, active support will continue to be delivered via a variety of measures to assist ambitious initiatives being pursued by shopping districts seeking to revitalize themselves by fulfilling their functions as “local community leaders.”

In order to develop compact, vibrant neighborhoods, support will continue to be provided for commercial revitalization projects being pursued collaboratively by private businesses and stores with their communities in regions that are seeking to “concentrate urban functions

in the center” and “bring vitality back to city centers” in an integrated manner in line with the Act on Improvement and Vitalization in City Centers.

### ● **Specific measures**

1. **Comprehensive support for revitalization of local shopping districts**  
(Continuation) (See p. 325.)
2. **Program to improve the vitality of SMEs in commerce (fiscal 2011 budget: ¥2.00 billion)**  
Shopping districts’ revitalization will be pursued through the provision of support for initiatives undertaken by shopping districts and similar organizations, as key players in their local communities, that effectively raise their ability to attract more shoppers or increase sales to meet social challenges created by the falling birthrate and demographic aging. (New)
3. **Development of human resources by National Shopping District Support Centers**  
(Continuation) (See p. 326.)
4. **Program to support activities of shopping district promotion associations (fiscal 2011 budget: ¥200 million)**  
(Continuation) (See p. 326.)
5. **Strategic support for the revitalization of commerce in city centers (fiscal 2011 budget: ¥2.88 billion)**  
(Continuation) (See p. 326.)
6. **Program to support the operation of councils for the revitalization of central urban districts (SMRJ subsidy program)**  
(Continuation) (See p. 326.)
7. **Program to dispatch advisers to assist city center and shopping district revitalization (SMRJ subsidy program)**  
(Continuation) (See p. 326.)
8. **Revitalization consultations and support for commerce in city centers (SMRJ subsidy program)**  
(Continuation) (See p. 326.)
9. **Special deduction for income from land transfer (taxation scheme)**  
(Continuation) (See p. 326.)



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## Chapter 3 Industry-specific measures for SMEs

### Section 1 Support for SMEs in agriculture, forestry, and fisheries

#### ● Specific measures

#### 1. Promotion of primary producers' diversification into processing and distribution

- (1) Comprehensive programs to promote agricultural, forestry, and fishery businesses' diversification into processing and distribution contained in the Package of Measures to Create Sixth Industries Pioneering a New Future (fiscal 2011 budget: included in ¥1.57 billion)

Support will be provided for the development of products and markets utilizing domestically produced agriculture, forestry, and fishery products in order to promote initiatives (including those undertaken by agricultural-commercial-industrial collaborations) to promote primary producers' diversification into processing and distribution. (New)

- (2) Comprehensive programs to promote agricultural, forestry, and fishery businesses' diversification into processing and distribution contained in the Package of Measures to Create Sixth Industries Pioneering a New Future (fiscal 2011 budget: included in ¥1.55 billion)

Support will be provided for the development of food processing facilities and agricultural, forestry, and fishery machinery required by agricultural, forestry, and fishery businesses for the development of stable business relations with food businesses and engage in food processing and distribution in order to promote initiatives (including those undertaken by agricultural-commercial-industrial collaborations) to promote primary producers' diversification into processing and distribution. (Continuation) (See p. 327.)

#### 2. Support for small and medium agricultural, forestry, and fishery businesses

- (1) Emergency measures to address structural changes affecting raw material sources, etc. in the wood industry (fiscal 2011 budget: ¥200 million) (Continuation) (See p. 327.)
- (2) Support for development of systems in the wood industry through subsidies for developing the forestry and wood industries (subsidy program) (Continuation) (See p. 328.)
- (3) Wood Industry Upgrading Promotion Fund and Forestry and Wood Industry Improvement Fund (Continuation) (See p. 328.)
- (4) Program for development of quality control systems for the marine products industry (fiscal

2011 budget: ¥90 million)

(Continuation) (See p. 327.)

- (5) Support for reorganization of the dairy industry under the General Program for Revitalization of Areas of Production (fiscal 2011 budget: included in ¥10.70 billion)

(Continuation) (See p. 328.)

#### 3. Support for R&D and other cross-field activities

- (1) The following programs will be implemented through competitive funding and other methods:

- 1) Promotion of basic research to generate innovation (fiscal 2011 budget: ¥5.57 billion) (Continuation) (See p. 327.)

- 2) Development of practical technologies to implement new agricultural, forestry, and fishery policies (fiscal 2011 budget: ¥5.15 billion)

(Continuation) (See p. 327.)

- 3) Promotion of practical applications of private-sector R&D (fiscal 2011 budget: ¥300 million)

(Continuation) (See p. 327.)

- (2) Program to improve quality control and reliability in food industries (fiscal 2011: ¥280 million)

(Continuation) (See p. 327.)

Support will be provided for initiatives to secure the trust of consumers and stimulate domestic markets by such means as improving the quality control of food products through the adoption of HACCP practices and rigorous implementation of ordinary hygiene control, strict compliance, and voluntary labeling of places of origin of ingredients in accordance with guidelines in the food industry.

- (3) Development of human resources to create new business (fiscal 2011 budget: ¥80 million)

(Continuation) (See p. 328.)

- (4) Various lending by the JFC (fiscal investment and loan program)

(Continuation) (See p. 327.)

### Section 2 Measures for SMEs in the transport industry

#### ● Specific measures

#### 1. Support for the warehousing industry

(Continuation) (See p. 328.)

#### 2. Support for automobile wrecking and maintenance businesses

In order to facilitate the raising of funds required for the modernization of automobile wrecking and

maintenance operations, loan guarantees and interest subsidies will be provided by making appropriate use of the automobile maintenance modernization fund program (new lending was concluded at the end of fiscal 2010).

(Continuation) (See p. 328.)

### 3. Measures for the coastal and domestic passenger shipping industries

(1) Comprehensive program to reduce carbon emissions generated by marine transport (expansion) (fiscal 2011 budget: ¥550 million)

Ferry and coastal shipping services will be made more competitive and revitalized by promoting the introduction of measures to reduce carbon emissions generated by this sector, which has a key role to play in the modal shift in transportation. (Continuation) (See p. 328.)

(2) Interim measures for coastal shipping (continuation) (See p. 328.)

(3) Promotion of construction of environmentally friendly and highly efficient domestic vessels using the joint shipbuilding program

In fiscal 2011, joint construction of vessels worth 28.4 billion (equivalent to approximately 80% of total vessel construction) is targeted.

(Continuation) (See p. 329.)

### 4. Measures for small and medium shipbuilders and related manufacturers

(Continuation) (See p. 329.)

## Section 3 Measures for small and medium building contractors and realtors

### ● Specific measures

#### 1. Promotion of development and changes of business by building contractors playing leading role in growth strategy (fiscal 2011 budget: ¥220 million)

(New)

(1) Fine-grained support including the dispatch of experts in specific fields will be provided to building contractors that seek to enter new fields, change or close down operations, restructure, etc. Know-how and technology transfer centers will be established to bring together the outstanding know-how and technologies of leading construction companies and enterprises in different fields and introduce them to small, medium, and mid-tier building contractors that are interested in using them, and support will be provided for the expansion of the licensing market and the development of new fields of business by motivated small, medium, and mid-tier building contractors. Support will also be provided to help equip skilled construction workers with the skills to engage in growth fields.

(2) Construction Enterprise Partnership Frontier

Program

(Continuation) (See p. 329.)

#### 2. Financial support in the construction industry (Continuation) (See p. 329.)

#### 3. Support for development of operations overseas in the construction industry (Continuation) (See p. 330.)

#### 4. Financial measures for small and medium realtors (Continuation) (See p. 330.)

#### 5. Revitalization and improvement of technological capabilities of small and medium homebuilders (Continuation) (See p. 330.)

(1) Support will be provided for the development of long-life, quality wooden housing using locally produced timber by small and medium homebuilders. (fiscal 2011 budget: included in ¥9.0 billion)

(2) Support will be provided to raise homebuilders' ability to build wooden housing and to ensure transmission of skills. (fiscal 2011 budget: ¥770 million)

#### 6. Development of the real estate market (fiscal 2011 budget: ¥10 million)

(Continuation) (See p. 330.)

## Section 4 Measures for the environmental sanitation business

### ● Specific measures

#### 1. Measures for the environmental sanitation business (fiscal 2011 budget: ¥380 million)

In fiscal 2011, new health and welfare programs will be implemented to, among other things, promote measures to prevent the spread of infectious diseases, such as new strains of influenza, and assist the development of the environmental sanitation business ("ES businesses"). (Continuation) (See p. 330.)

#### 2. Loans for ES businesses (fiscal investment and loan program) (fiscal 2011 budget: ¥1.53 billion)

(Continuation) (See p. 331.)

## Section 5 Measures for the service industry

### ● Specific measures

#### 1. Dissemination and raising of awareness of productivity improvements by small and medium service providers

In order to raise productivity in the service industry, which is considered to be low in comparison with other developed countries, steps will be taken to disseminate and raise awareness of initiatives raise

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labor productivity and to flesh out innovations in the service industry in collaboration with SME support providers and similar organizations. This will be achieved by, for example, showcasing tools usable

by small and medium service providers that were developed based on accumulated outputs to date. (Continuation) (See p. 331.)

## Chapter 4 Other measures for SMEs

### Section 1 Environmental and energy measures

While the future shape of energy policy is to undergo comprehensive review in the wake of the Great East Japan Earthquake, environmental and energy measures for SMEs, including support for their adoption of energy-saving and renewable technologies and anti-pollution measures, will continue to be implemented in fiscal 2011.

#### ● Specific measures

**1. Domestic Credit System (fiscal 2011 budget: ¥5.41 billion)**

Administrative support will continue to be provided to make it easier for SMEs and other businesses to use the Domestic Credit System. In order to boost low-carbon investment by SMEs and other businesses using this system and assist steady reductions in emissions, support will also be provided further to redesign of the system to base subsidies on actual rather than projected reductions in carbon dioxide emissions. (Continuation) (See p. 331.)

**2. Development of Carbon Footprint System (fiscal 2011 budget: ¥490 million)**

(Continuation) (See p. 331.)

**3. Environmental and Energy Measure Funds (for anti-pollution measures) (fiscal investment and loan program)**

(Continuation) (See p. 332.)

**4. Anti-pollution tax system (taxation scheme)**

(Continuation) (See p. 332.)

**5. Energy Use Rationalization Business Support Program (fiscal 2011 budget: ¥44.55 billion)**

In order to further promote investment in energy conservation in fiscal 2011, arrangements will be modified to, among other things, raise the ceiling on subsidies and target support at SMEs and energy-intensive enterprises. In view of the severe power supply situation caused by the Great East Japan Earthquake, steps will also be taken to give priority to the selection of projects involving the adoption of energy-saving facilities that contribute to the saving of electricity.

(Continuation) (See p. 332.)

**6. Program for promoting the introduction of energy-saving measures (fiscal 2011 budget: ¥890 million)**

(Continuation) (See p. 332.)

**7. Taxation scheme to promote environment-related investment (taxation scheme)**

In order to ensure the stable supply of energy and help create a low-carbon growth society, creation of a new tax scheme to promote environment-related investment has been incorporated into the outline for tax revisions in fiscal 2011 in order to assist the purchase of widely used equipment that significantly reduces energy consumption and carbon dioxide emissions. This will allow SMEs to choose either a special depreciation of 30% or a 7% tax credit. (The previous tax scheme to promote capital investment in energy conservation and new energies, called the “Tax Scheme to Promote Investment in Reform of the Energy Supply and Demand Structure,” will be discontinued.) (New)

### Section 2 Promotion of adoption of IT

As use of IT in business management is necessary and essential to strengthening SMEs’ competitiveness, action will continue to be taken to develop the conditions to promote IT use by SMEs and to raise their labor productivity and sophistication of management.

More specifically, this will be achieved through, among other things, the development of conditions to promote the use of cloud computing, compilation and dissemination of information on best practice in IT management practiced by SMEs, and the provision of loans to fund investment in IT by government-affiliated financial institutions.

#### ● Specific measures

**1. Promotion of use of IT in business by SMEs (fiscal 2011 budget: included in ¥430 million)**

In order to revitalize regional economies using IT, support will be provided principally through the compilation of information on best practice for active dissemination through operation of the IT Management Awards for Small and Medium Enterprises and a portal site in order to sustainably promote the use of IT in business (in business management, development of new products and services, and generation of innovation through business-to-business partnerships) by local SMEs and other enterprises of facing a diversity of conditions in terms of size, industry, locality, and so on. (New)

**2. Development and real-world testing of next-generation, highly reliable, energy-saving core IT technologies (fiscal 2011 budget: included in ¥1.58 billion)**

Support will be provided to enable small and medium IT vendors proposing to develop new business from the development of conventional subcontracting to take advantage of advances in cloud computing to do business “in the cloud.” This will be accompanied by the development, dissemination, and implementation of self-sustaining business models in collaboration with small and medium IT vendors in local communities to promote the use of cloud services by SME IT users.

(New)

**3. Lending by government-affiliated financial institutions for investment in IT (IT Fund)**

(Continuation) (See p. 333.)

### **Section 3 Measures on intellectual property**

SMEs find it more difficult than large enterprises to secure sufficient knowledge, human resources, and funds to effectively protect and make use of their intellectual property. This makes it important that arrangements be developed to deliver end-to-end support extending from R&D through to business development and expansion overseas by, for example, providing information on intellectual property and using specialist human resources to protect intellectual property. Action will therefore be taken to develop one-stop sources of advice on intellectual property and dispatch experts on the subject. A bill to partially amend the Patent Act and other legislation was passed during the 177th ordinary session of the Diet. This extended the period of reduction or waiver of patent fees for SMEs from three to ten years and incorporated other measures to reduce the burden of patent fees on these and other enterprises.

● **Specific measures**

**1. Provision of one-stop intellectual property service for SMEs (fiscal 2011 budget: ¥1.85 billion)**

“General intellectual property help desks” will be opened in each prefecture and staffed by support staff in order to provide a one-stop service for on-the-spot resolution of intellectual property concerns and problems encountered by SMEs in the course of business. SMEs’ use of intellectual property will additionally be promoted by such means as using intellectual property experts to work with SMEs to jointly resolve highly specialist issues, collaborating with SME support providers and similar organizations, and identifying SMEs and other enterprises that are not making effective use of intellectual property.

(New)

**2. Survey of trends in patent applications (fiscal 2011 budget: ¥580 million)**

In order to support the development of R&D and intellectual property strategies, the results of surveys of trends in patent applications in selected areas of technology, focusing on the eight fields designated for pursuit by Japan, will be published on the Patent Office’s website and through other channels.

(Continuation) (See p. 333.)

**3. Support for patent applications overseas made by local SMEs (reduction of cost of filing patent applications overseas) (fiscal 2011 budget: ¥80 million)**

In order to promote SMEs’ and ventures’ development of operations overseas, support will be provided via prefectural support centers for SMEs to SMEs and ventures that are seeking to file strategic applications for patents and other rights overseas.

(Continuation) (See p. 333.)

**4. Promotion of wider use of IP and industrial property systems (fiscal 2011 budget: ¥110 million)**

(Continuation) (See p. 334.)

**5. Support for protection of SMEs’ IP (fiscal 2011 budget: ¥30 million)**

(Continuation) (See p. 334.)

**6. Patent strategy portal site (fiscal 2011 budget: ¥10 million)**

(Continuation) (See p. 334.)

**7. Reduction of patent and other fees paid by SMEs**

(Continuation) (See p. 334.)

**8. Deferral of payment of examination fees**

(Continuation) (See p. 334.)

**9. Accelerated examination and accelerated appeal examination system**

(Continuation) (See p. 334.)

**10. Promotion of acquisition of rights through sophisticated use of information on intellectual property (INPIT subsidy program)**

The National Center for Industrial Property Information and Training (INPIT) will help SMEs and other businesses with promising technologies that are expected to develop operations overseas to make use of intellectual property to assist their overseas development. Such support will include the formulation of intellectual property strategies by experts in intellectual property management (“overseas intellectual property producers”) tailored according to the situations, systems, and other conditions pertaining in the target countries. (New)

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## Section 4 Promotion of human rights awareness

### ● Specific measures

Raising of human rights awareness (fiscal 2011 budget: ¥190 million)

(Continuation) (See p. 334.)

## Section 5 Promotion of surveys and public information activities

### ● Specific measures

#### 1. Publicizing of measures

(1) Publication of print media (Continuation) (See p. 335.)

(2) Publication of flyers (Continuation) (See p. 335.)

(3) Organization of “One-day SME Agency” events

These events will be held to explain the latest

measures to local SMEs and share views with them. In fiscal 2011, they are scheduled to be held in Gifu Prefecture and Aomori Prefecture.

(Continuation) (See p. 335.)

(4) Online public information activities

(Continuation) (See p. 335.)

(5) J-NET21 (portal site providing SME business support)

(Continuation) (See p. 335.)

2. *Production of the White Paper on Small and Medium Enterprises in Japan* and other publications

3. *Basic Survey of Small and Medium Enterprises* (Continuation) (See p. 335.)

4. *Publication of the Survey on SME Business Conditions*

(Continuation) (See p. 335.)

# Appended notes



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### Appended note 1-2-1 Criteria for determination of urban employment areas

	Urban employment area
Category	Metropolitan employment area: DID population of central city is at least 50,000 Micropolitan employment area: DID population of central city is at least 10,000 and less than 50,000
Urban area	Includes municipalities with a DID population of at least 10,000
Central city	A municipality that meets any of the following conditions is defined as a central city (if there is more than one such municipality, they are together treated as a single central city): (1) Municipality has a DID population of at least 10,000 and is not a suburb of another city (2) Municipality is a suburb but (a) the ratio of workers to permanent residents in the municipality is at least 1 and (b) its DID population is at least 100,000 or at least one third that of the central municipality
Suburb	A municipality is defined as (a) a (primary) suburb municipality if the commuting rate of the municipality is at least 10%, and (b) a secondary suburb or lower if the commuting rate of the municipality is over 10% and there are no other municipalities with an equal or greater commuting rate. However: (1) If the commuting rate of one municipality to another is at least 10% and vice versa, the municipality with the greater commuting rate is defined as a suburb of the other. (2) If a central city is comprised of multiple municipalities and the commuting rate to all those municipalities is at least 10%, the municipality is defined as the suburb of that central city. (3) If there are two or more central cities with the commuting rate of over 10%, the municipality with the greatest commuting rate is defined as a suburb of the central city. (4) If the commuting rate of a municipality to a central city and to a suburb municipality is more than 10% respectively, the municipality is defined as a suburb of the one to which the greatest proportion commutes.

DID is an abbreviation for "densely inhabited districts."

DIDs serve to give a statistically clearer picture of the situations of populations of urban areas and are used as a criterion for calculating local allocation tax. They are widely used for purposes such as urban planning, regional development planning, urban redevelopment planning, and industrial location planning.

More specifically, DIDs normally consist of:

- population census districts with a population density of at least 4,000/square kilometer
- situated adjacently within a municipality
- where the population of these adjacent areas is at least 5,000.

DID if the population density of each survey district is at least 4,000 /square kilometer and the total population is at least 5,000

Not a DID if the population density of each survey district is at least 5,000 but the total population is less than 5,000

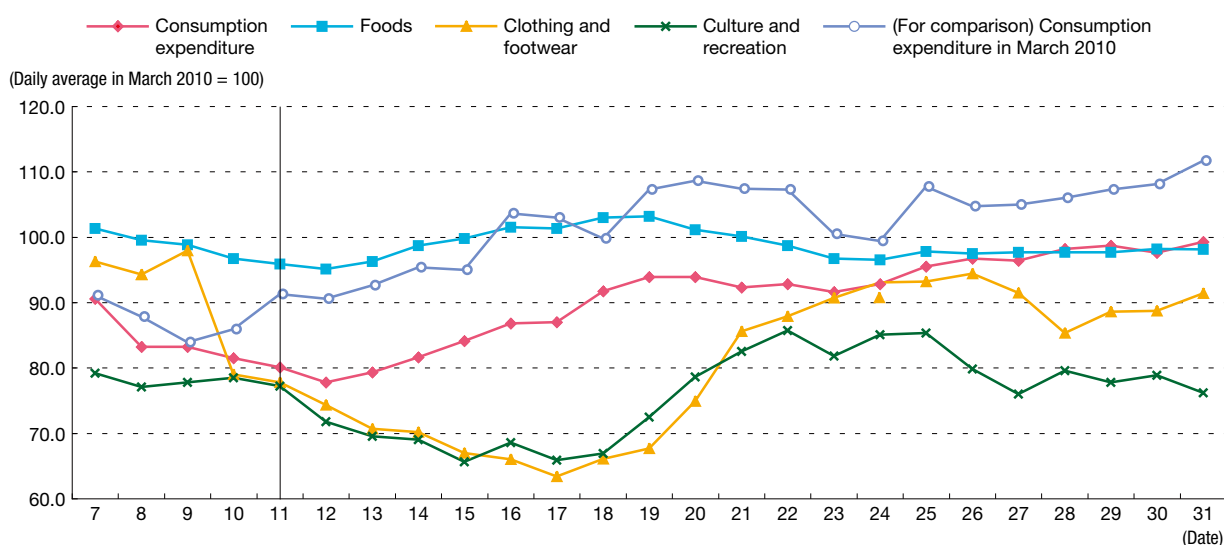
	All Japan	DID	
Total area (square kilometers)	377,923	12,561	3.3
Total population (1,000 persons)	127,768	84,331	66.0
Population density (persons/square kilometer)	338	6,714	

\*Right-hand column indicates proportion of national total.

Sources: Kanemoto and Tokuoka, *Criteria for Determination of Urban Employment Areas in Japan*; MIC, *2005 Population Census*.

### Appended note 1-2-2 Daily trends in consumption expenditure and main items of expenditure in March 2011

Despite signs of one-off bulk buying of "foods" immediately after the earthquake, spending on "clothing and footwear" and "culture and recreation" fell sharply at this time.



Source: Supplementary Table 1 of MIC, *Family Income and Expenditure Survey* (published April 28, 2011).



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## Appended note 2-1-1 Small and Medium Enterprise Charter

Small and medium enterprises (SMEs) are the driving force of the Japanese economy and central players in society. As forerunners of each elapsed age, SMEs have, at all times, positively and resolutely challenged as pioneers and overcome whatever hardships they have encountered. In the period just after the World War II SMEs satisfied vigorous domestic demand for daily essentials and also developed overseas markets by exports. In the oil crisis of the 1970s, SMEs worked hard on energy saving and contributed the nation lowering its dependence on oil. When the Japanese economy suffered from sharp yen appreciations, SMEs in different local producing areas collaborated with each other and worked to develop businesses in new fields. In the years following the collapse of bubble economy, SMEs have survived by making use of new technologies such as the Internet.

Now Japan is facing economic stagnation originating from the global recession, environmental and energy constraints, a falling birthrate and an aging population. It is essential that SMEs make full use of their power and ability, revitalize the exhausted local economies, and simultaneously open up a new future for Japan by capitalizing on the growth of Asian and other emerging economies.

The Government will become a key supporter of all activities undertaken by SMEs, make concerted efforts to assist SMEs to fully develop their individuality and potential, encourage the SMEs that are self-reliant, support SMEs that are in trouble, and consider all issues from the SME standpoint. The Government will make its best effort to see all SMEs working as glorious entities and contributing to the realization of a stable and vigorous economy and an affluent people's life. For all these purposes, the Government hereby formulates the Small and Medium Enterprise Charter.

### 1. Basic Philosophy

SMEs support and drive our economy and daily lives. SMEs exercise their originality and ingenuity, improve their technology and skills, provide the majority of employment, and make our everyday lives more pleasant and enjoyable. SMEs are quick to decide and act; they have their favorite areas where they can exert individuality and diverse potential; and their managements are full of entrepreneurship and they perform their responsibilities for protecting not only their families but also employees while carrying out businesses relying on their own resources. SMEs are places where employers and employees work together in a sense of unity, permitting each member's effort to lead to visible achievements.

As central players of society, SMEs make contributions to their communities and the life of their inhabitants, and perform important functions in the succession of traditional skills and culture. Many of small enterprises are family-run and contribute to the stability of their local community.

SMEs are to be regarded as the nation's treasure. On the other hand, limited financial and human resources have kept many SMEs vulnerable to changes originating outside, subjected to unfair trade practices, and exposed to many hardships. This has caused tendencies and values inclined to place a priority on large enterprises. The current turmoil in the global economy triggered by the financial sector, however, has rather revealed the weakness of large enterprises, and then the entire world expects SMEs to play a greater role rather than before. On the domestic front, people feel increasingly anxious about the future because of a falling birthrate, an aging population and stagnant economic society. The examples of key industries capable of eradicating such worries are those of healthcare, welfare, information and communication technology, and environment and energy technology resolving the global warming problem. Those industries, at the same time, have potential of growing markets. The Government will ensure that SMEs fully exert their power in these sectors and then contribute to the realization of an affluent economy, society without anxiety and vibrant lives of people. This is the new model which Japan is willing to present to the world.

This is the very era that requires us to make efforts to overcome hardships, and we must highly value on working with creativeness and ingenuity. SMEs are and will be a major player in such works and efforts.

### 2. Fundamental Principles

In accordance with the above-stated basic philosophy, the Government will implement SME policies in accordance with the following principles.

- (1) Supporting SMEs as a source of economic vitality, to make full use of their capabilities:  
The Government will support SMEs to secure management resources including funds, human resources and the ability to expand/manage overseas business, and promote SMEs to make full use of their capabilities. In so doing, the Government will pay enough consideration to small enterprises which often have more serious difficulty in securing management resources. The Government will support the measure of cooperative associations and cross-industry alliances to make greater exertion of SMEs' capabilities.
- (2) Encouraging SMEs to start up new businesses:  
Start-up enables people to exercise potential and willingness without being bound by the framework of the existing organization, and creates new jobs. The Government will drastically upgrade the existing incentive programs for start-up to further revitalize the economy.
- (3) Encouraging the challenges of SMEs to advance into and develop new markets with their creativity and ingenuity:  
The Government will create less constrained markets in which SMEs can display their diverse capabilities and management innovation with creativity and ingenuity. The Government will also upgrade policies designed to encourage SMEs to expand overseas business.
- (4) Enhancing fairness in markets:  
The Government will constantly endeavor to keep markets fair to enable SMEs to do businesses with more powerful companies on substantially equal terms, and not to lose their independency.
- (5) Providing the safety net for worry-free business operations of SMEs:  
Given that some of SMEs are vulnerable to economic or social change, the Government will have in place the safety nets including financial one and mutual aid system. The Government will make business restart easier and then ensure that corporate revival is more accessible and user-friendly to SMEs.

When the Government will implement policies based on the above principles, it will observe the following rules:

- highly evaluating SMEs that proudly perform businesses in an independent manner or try to tackle social issues such as contributions to the local community;
- paying greater attention to the significance of family business and smoothening business succession;
- listening to opinions of SMEs, considering all sorts of issues from the SME standpoint, and utilizing those opinions when evaluating SME policies;

- promoting more understanding from and cooperation with local business associations, trade partners with SMEs, financial institutions, educational and research institutions, and SME support personnel;
- strengthening collaboration with local governments; and
- working concertedly across all governmental organizations.

### 3. Action Guidelines

The Government will proceed with practical activities in line with the following pillars:

- (1) Upgrading and making thoroughly the management support from the SME standpoint:  
In order to promote technological capability of SMEs, the Government will support their R&D in the manufacturing and other areas and joint research with educational or research institutes and other companies. The Government will maintain and further develop regional industrial clusters that are key to the competitiveness of the economy. The Government will also promote cross-industry alliances and collaboration and use of intellectual property, in order for SMEs to strengthen the business capabilities. For more efficient business management support, the Government will train and reinforce SME support personnel, and upgrade SME support system in collaboration with local business associations.
- (2) Supporting SMEs' efforts to develop and secure human resources:  
Human resources are keys of SME business management. The Government will provide SMEs with opportunities of human resource development for their employees to improve their capabilities aggressively. The Government will encourage people to find work with attractive SMEs and promote business start-up, and will also improve education that serves to develop sound working and vocational values at each stage of school education and to help people not to be bound by faith in large enterprises. The Government will also aim to create a high-quality working environment for employees including women, the elderly and the disabled people.
- (3) Creating an environment for easier start-up and business advance into new fields:  
The Government will remove barriers like financial difficulties for start-up and entry into new businesses. The Government will also endeavor to reform the existing system so that SMEs can aggressively expand business in growth sectors which are expected to shore up the future Japanese economy, such as healthcare, nursing care, agriculture or information and communication technology industries. The Government will aim to create internationally open and the most advanced start-up environment.
- (4) Supporting SMEs expanding overseas:  
The Government will work in strengthened collaboration with the private sector to assist SMEs to develop overseas markets. The Government will also provide information on trends in overseas markets and international trade fairs, support SMEs activities intended to advance into new markets, and solve troubles related to intellectual property. The Government will push ahead with support for development of human resources workable in overseas activities, or use of foreign staff, and then realize their true internationalization.
- (5) Enhancing fairness in markets:  
The Government will strictly enforce the laws designed to protect the legitimate profits of SMEs, prevent large enterprises from delaying payment or reducing the amount of payment to SMEs, and remove all actions by large enterprises that demand for excessive quality which inflicts unreasonable costs on SMEs. Central and local governments will also consider more procurement from SMEs and endeavor to ensure that SMEs will be provided with greater opportunities for government contracts.
- (6) Facilitating SME financing:  
The Government will enrich policy-based finance designed to protect SMEs against recessions or natural disasters, and to encourage management innovation and R&D. The Government will also facilitate the flow of funds to the SMEs which try to start up new businesses and to change or expand businesses. When providing funds to SMEs, the Government will promote financial institutions to place importance on SMEs' their business capabilities and the aptitude of managers, including intellectual assets, and then reduce SMEs' loans dependence on real estate collateral or guarantors. For this purpose, the Government will establish an accounting system that is in line with actual conditions and encourage SMEs to have clearer management data and available information, to improve their manager's capability of explaining their own businesses and to strengthen their fundraising capabilities.
- (7) Creating a system to boost SMEs contributions to communities and society:  
The Government will provide wide support to SMEs' activities aimed at tackling issues suffered by local communities, such as aging population, rural depopulation, and environmental problems. Those activities include performed jointly with shopping streets and local business associations. The Government will support SMEs' participation in activities that strengthen relationships within local communities, such as local festivals and the projects designed for local economic development. The Government will also back up SMEs' activities for the succession of skilled expertise and traditional techniques.
- (8) Implementing SME policies comprehensively taking into consideration their impacts on SMEs, and reflecting their voices in policy evaluation:  
Inter-ministerial collaboration will enhance the effectiveness of measures to support SMEs efforts for starting up or changing/expanding businesses. Small and Medium Enterprise Agency and all other ministries and agencies concerned will work in strengthened unity to develop and implement SME policies in relation to industry, employment, social security, education, finance, public finance, and the taxation system. In so doing the Government will listen to SME voices across the country in cooperation with local business associations and reflect them in reviewing the effects of the policies implemented.

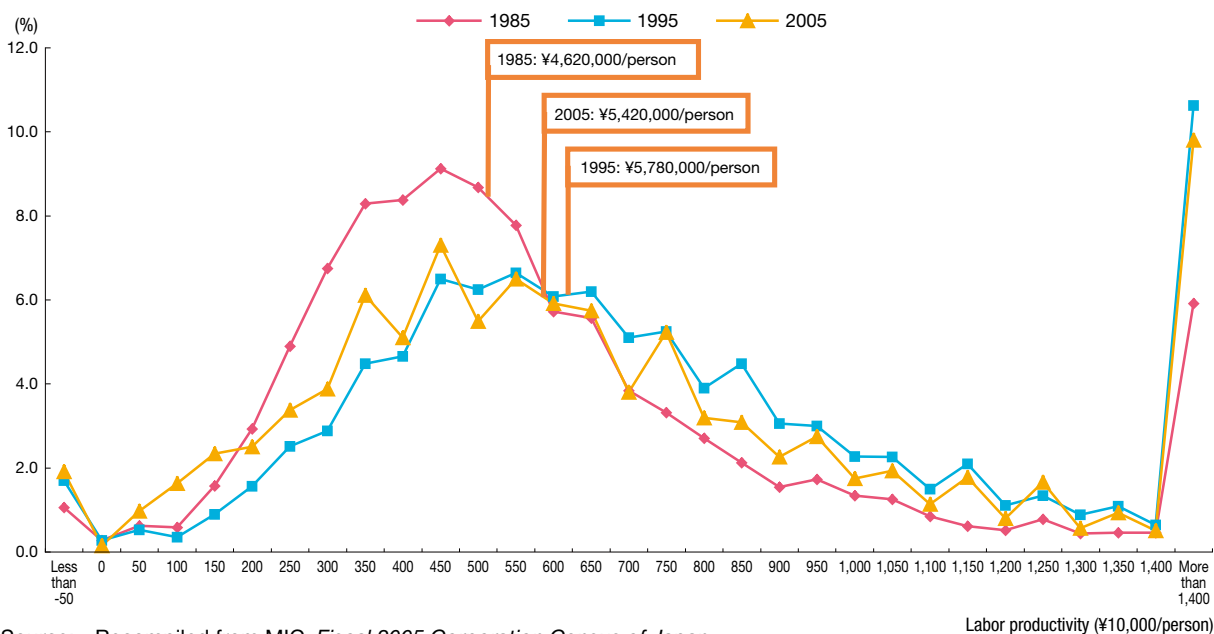
### Conclusion

The world economy is seeing its growth center moving toward emerging countries in Asia and other developing regions from the developed, and also experiencing accelerated structural changes that cause information and financial activities spreading instantaneously. In Japan where we are facing a falling birthrate and an aging population, it should become more important and vital than ever to have each and every citizen develop and make full use of his/her capacities. Unless we change our society so that it may encourage people to redouble their efforts to start up businesses, to develop new businesses, and to make full use of creativeness and ingenuity, we will fall into a grave situation in the future. The Government hereby declares that it greatly expects leadership by SMEs in implementing change, and that it strengthens its determination to endeavor to the realization of an economic society that enables SMEs to resolutely challenge.

## Appended note 2-1-2 Distributions of labor productivity, etc. (1985, 1995, 2005)

### Appended note 2-1-2 (1) Distributions of labor productivity

Between 1985 and 2005, the proportion of SMEs with labor productivity per person of from ¥1,500,000 to less than ¥5,500,000 decreased and the proportion with from ¥7,000,000 to less than ¥14,000,000 increased.

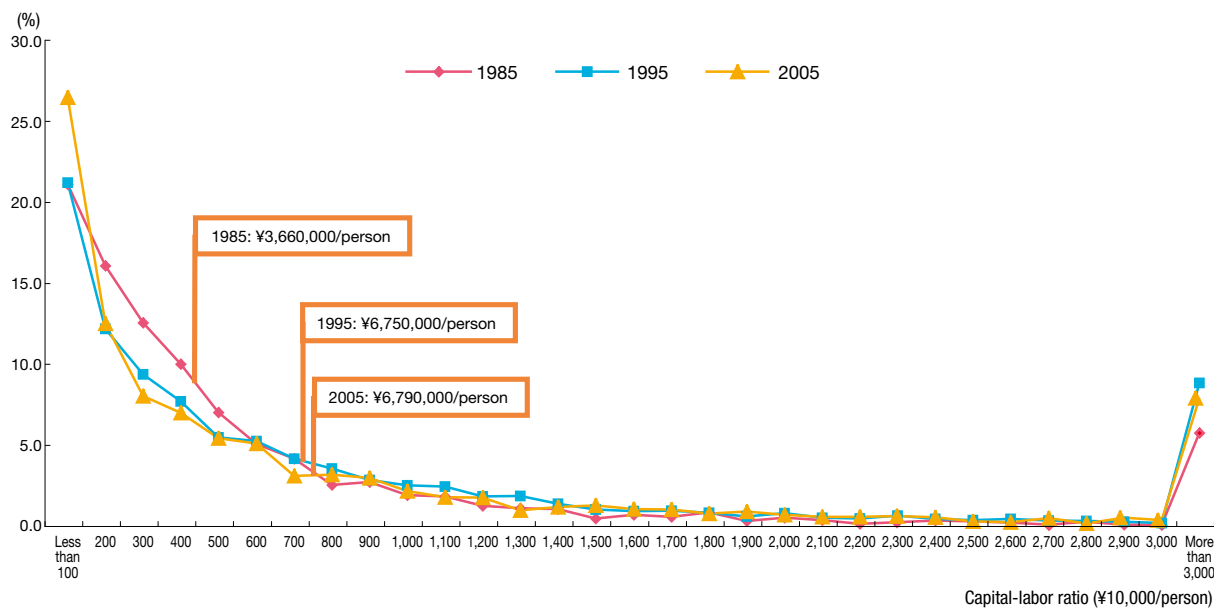


Source: Recompiled from MIC, *Fiscal 2005 Corporation Census of Japan*.

- Notes:
1. Values on the horizontal axis indicate the range from the neighboring value on the left up to but not including the value shown (e.g., "100" means the range from 50 to less than 100).
  2. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

### Appended note 2-1-2 (2) Distributions of capital-labor ratio

Between 1985 and 1995, the proportion of SMEs with a capital-labor ratio of ¥2,000,000~¥5,000,000/person decreased, and the proportion with a ratio of at least ¥30,000,000/person increased.

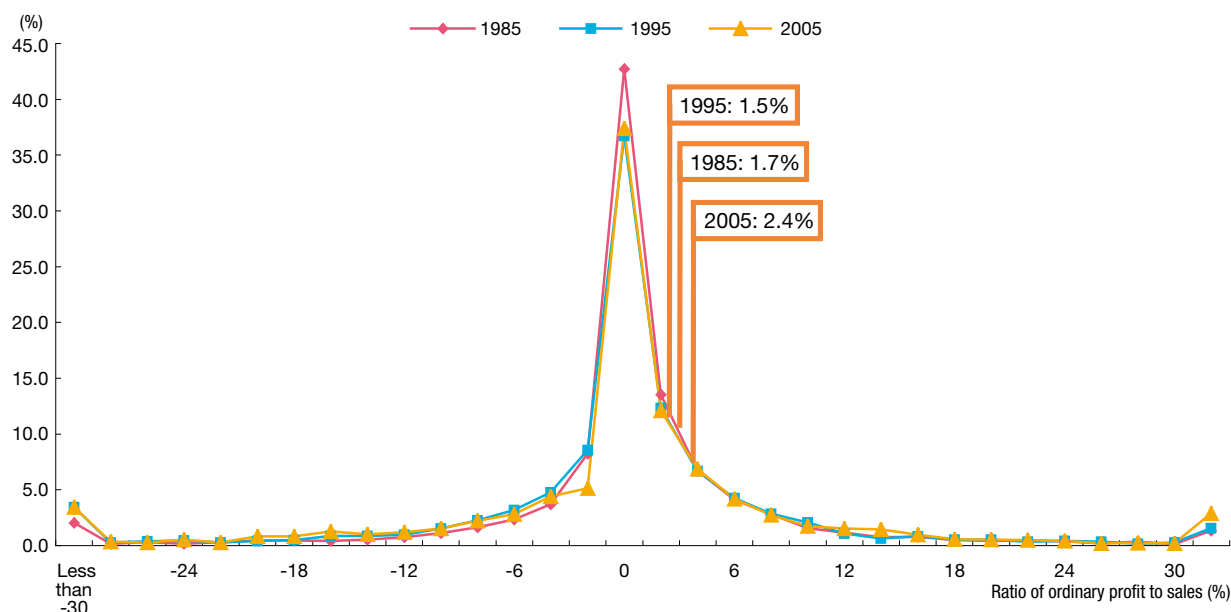


Source: Recompiled from MIC, *Fiscal 2005 Corporation Census of Japan*.

- Notes:
1. Values on the horizontal axis indicate the range from the neighboring value on the left up to but not including the value shown (e.g., "300" means the range from 200 to less than 300).
  2. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

### Appended note 2-1-2 (3) Distributions of ratio of ordinary profit to sales

Between 1985 and 2005, the proportion of SMEs with a ratio of ordinary profit to sales of from -4% to less than 2% decreased, and the proportions with ratios of at least 30% and less than -30% increased.

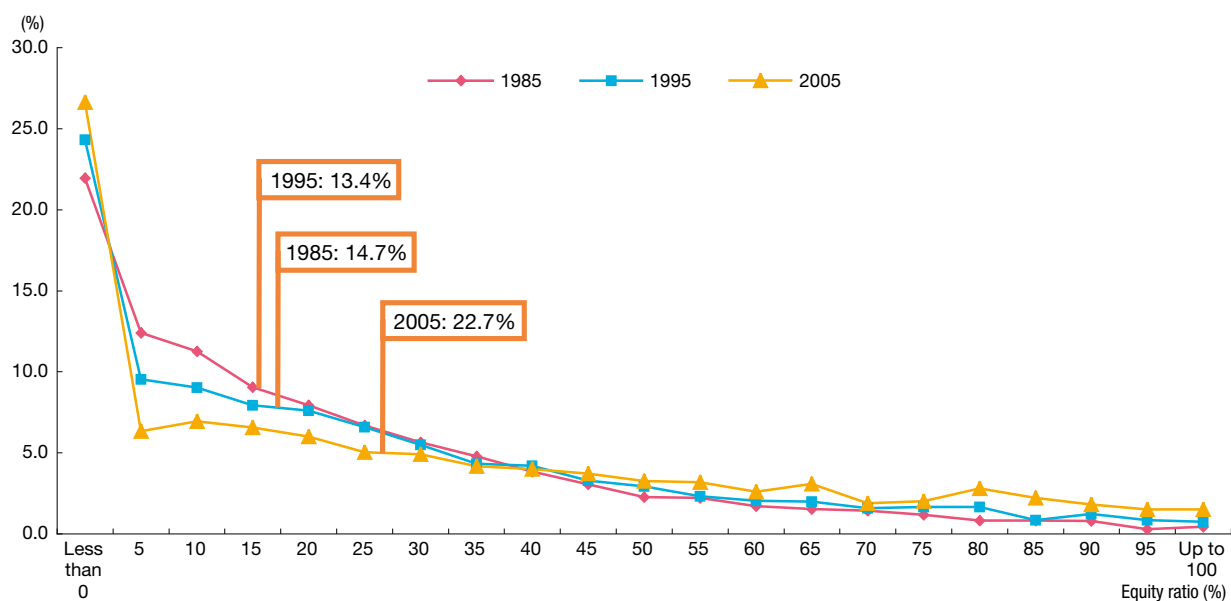


Source: Recompiled from MIC, *Fiscal 2005 Corporation Census of Japan*.

- Notes:
1. Values on the horizontal axis indicate the range from the neighboring value on the left up to but not including the value shown (e.g., “4” means the range from 2% to less than 4%).
  2. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

### Appended note 2-1-2 (4) Distribution of equity ratio

Between 1985 and 1995, the proportion of SMEs with an equity ratio of from 0% to less than 35% decreased, and the proportion with a ratio of at least 40% increased.



Source: Recompiled from MIC, *Fiscal 2005 Corporation Census of Japan*.

- Notes:
1. Values on the horizontal axis indicate the range from the neighboring value on the left up to but not including the value shown (e.g., “30” means the range from 25% to less than 30%).
  2. Large enterprises are enterprises with capital of ¥100 million or more, and SMEs are enterprises with capital of ¥10 million or more and less than ¥100 million.

### Appended note 2-1-3 Value added by major group of industry in manufacturing

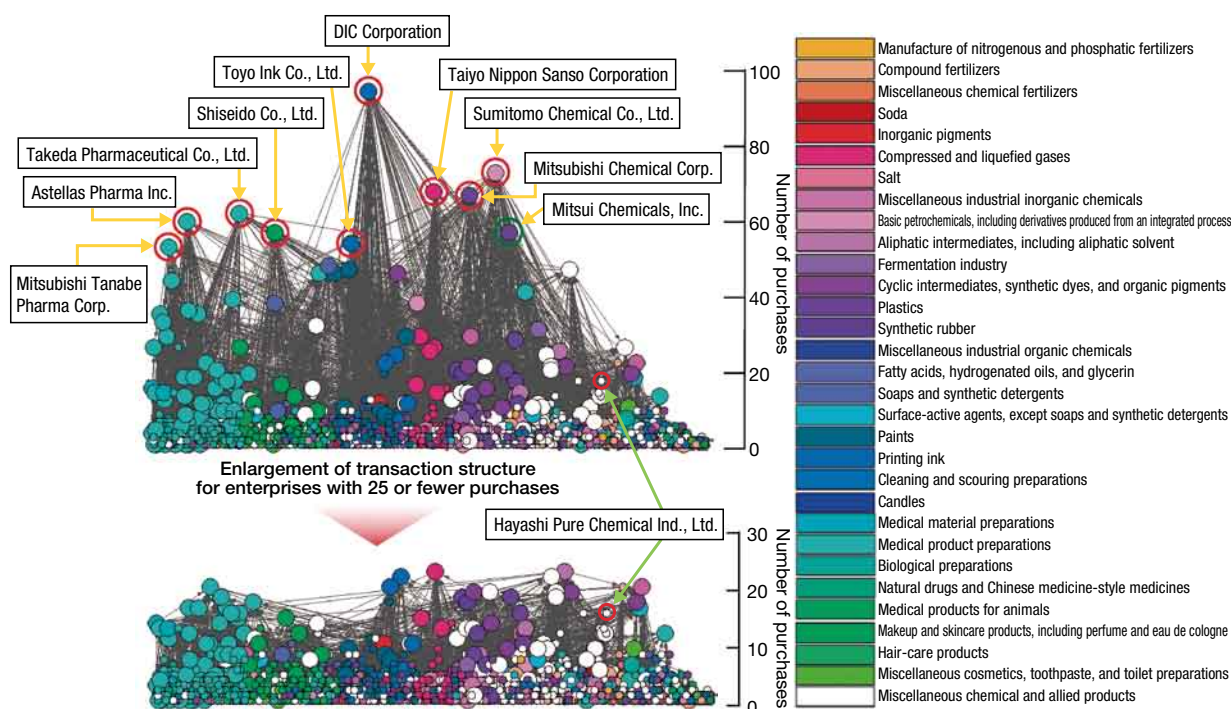
Industry	Item	Value added	
		Amount (¥ million)	Proportion of total (%)
Transport equipment		15,972,487	15.8
Chemicals		10,541,928	10.4
Foods		8,647,908	8.5
Production machinery		6,884,774	6.8
Electronic parts, devices, and electronic circuits		6,004,898	5.9
Fabricated metals		5,934,969	5.9
Electrical machinery		5,925,342	5.8
Iron and steel		5,880,565	5.8
General-purpose machinery		4,235,962	4.2
Plastic products (excluding otherwise shown)		4,131,580	4.1
Information and communication electronics equipment		3,538,633	3.5
Ceramic, stone and clay products		3,449,982	3.4
Printing and allied industries		2,963,222	2.9
Beverages, tobacco, and animal feed		2,799,494	2.8
Business-oriented machinery		2,667,977	2.6
Pulp, paper, and paper products		2,313,185	2.3
Non-ferrous metals		2,114,231	2.1
Other manufacturing		1,841,320	1.8
Textiles		1,778,067	1.8
Rubber products		1,278,237	1.3
Wood and wood products (excluding furniture)		827,480	0.8
Furniture and fixtures		797,374	0.8
Petroleum and coal products		775,045	0.8
<b>All manufacturing</b>		<b>101,304,661</b>	<b>100.0</b>

Source: Recompiled from METI, *2008 Census of Manufactures*.

- Notes:
1. Value added of business establishments with four or more workers.
  2. Gross value added is used for business establishments with 4-29 workers.
  3. "Leather tanning, leather products, and fur skins" is included in other manufacturing.

### Appended note 2-1-4 Transaction structure in the chemicals industry

In the chemicals industry, there is one large enterprise engaging in the manufacture of printing ink that has approximately 100 purchases. One SME that has a large number of suppliers is a manufacturer of reagents and chemicals for the electronics industry that does business in a range of fields extending from manufacturing to recycling.



Source: Recompiled from Tokyo Shoko Research, Ltd., *TSR Enterprise Correlation Files (2010)*.

- Notes:
1. Transactions between enterprises are shown by lines. Large enterprises are indicated by large circles, and SMEs by small circles. The color of the circle indicates the principal minor category of industry of each enterprise as recorded in the Industry Minor Category Database.
  2. The transactions are drawn from a sample of transactions between enterprises in the same industry, and do not represent all the data contained in the Enterprise Correlation Files.
  3. The Enterprise Correlation Files were compiled from data as of the time of surveys and interviews by Tokyo Shoko Research, Ltd., and may now no longer pertain.

### Case for Appended note 2-1-4 Hayashi Pure Chemical Ind., Ltd.

**Manufacturer of reagents and chemicals for the electronics industry involved in fields ranging from development and production to recycling**

Based in Osaka City, Osaka Prefecture, with a workforce of 260 and capital of ¥157.50 million, Hayashi Pure Chemical Ind., Ltd. researches, develops, manufactures, and distributes reagents and chemicals for the electronics industry.

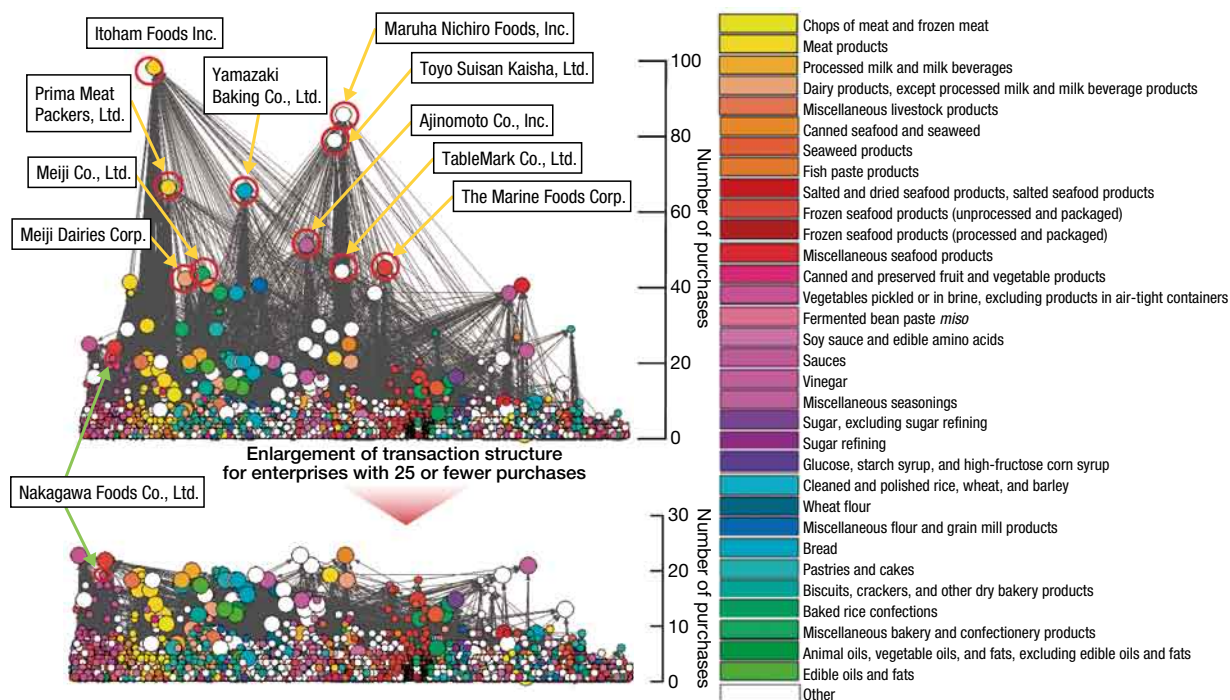
Founded in 1904 to market chemicals, it subsequently made use of the proprietary technologies built up through its development and manufacture of reagents to develop high-purity reference standards for use in testing for agrochemical residues in foods and analyses for environmental pollutants, contaminants, and products of decomposition in pharmaceuticals and agrochemicals, leading to its doing business with public-sector research institutes and companies in the food, chemical, pharmaceutical, and agrochemical industries.

The strategic focus of its electronics industry chemicals segment is on the development of “functional solutions” for energy-saving LEDs and solar cells used in the new energies sector. It has thus grown to become a key chemicals manufacturer playing a crucial behind-the-scenes role in making final products more energy efficient. Having developed a technique for recovering and recycling waste organic solvents used in the manufacture of electronic devices, it also now places a focus on helping to ameliorate environmental problems by providing recycling services to dispose of waste fluids.

It thus continues to develop a wide-range of products and services to meet extensive corporate needs, including not only the development, manufacture, import, and distribution of reagents used in testing and research in a range of fields, including the public sector and the food, chemicals, pharmaceutical, and agrochemical industries, but also the development, manufacture, and distribution of industrial chemicals used in the manufacture of electronic devices, and the recovery and recycling of used fluids.

## Appended note 2-1-5 Transaction structure in the food industry

In the food manufacturing industry, there is one large enterprise engaging in the manufacture of meat products that has approximately 100 purchases. One SME that has a large number of suppliers is a distributor of *kimchi* and similar products flavored to suit Japanese tastes, which it supplies to numerous food supermarkets and other outlets.



Source: Recompiled from Tokyo Shoko Research, Ltd., *TSR Enterprise Correlation Files (2010)*.

- Notes:
1. Transactions between enterprises are shown by lines. Large enterprises are indicated by large circles, and SMEs by small circles. The color of the circle indicates the principal minor category of industry of each enterprise as recorded in the Industry Minor Category Database.
  2. The transactions are drawn from a sample of transactions between enterprises in the same industry, and do not represent all the data contained in the Enterprise Correlation Files.
  3. The Enterprise Correlation Files were compiled from data as of the time of surveys and interviews by Tokyo Shoko Research, Ltd., and may now no longer pertain.

## Case for Appended note 2-1-5 Nakagawa Foods Co., Ltd.

Distributor of *kimchi* and similar products flavored to suit Japanese tastes to numerous food supermarkets and other outlets

Based on Setagaya City, Tokyo, with a workforce of 185 and capital of ¥45 million, Nakagawa Foods Co., Ltd. is a producer and distributor of products including lightly salted and traditional Japanese pickles and *kimchi*.

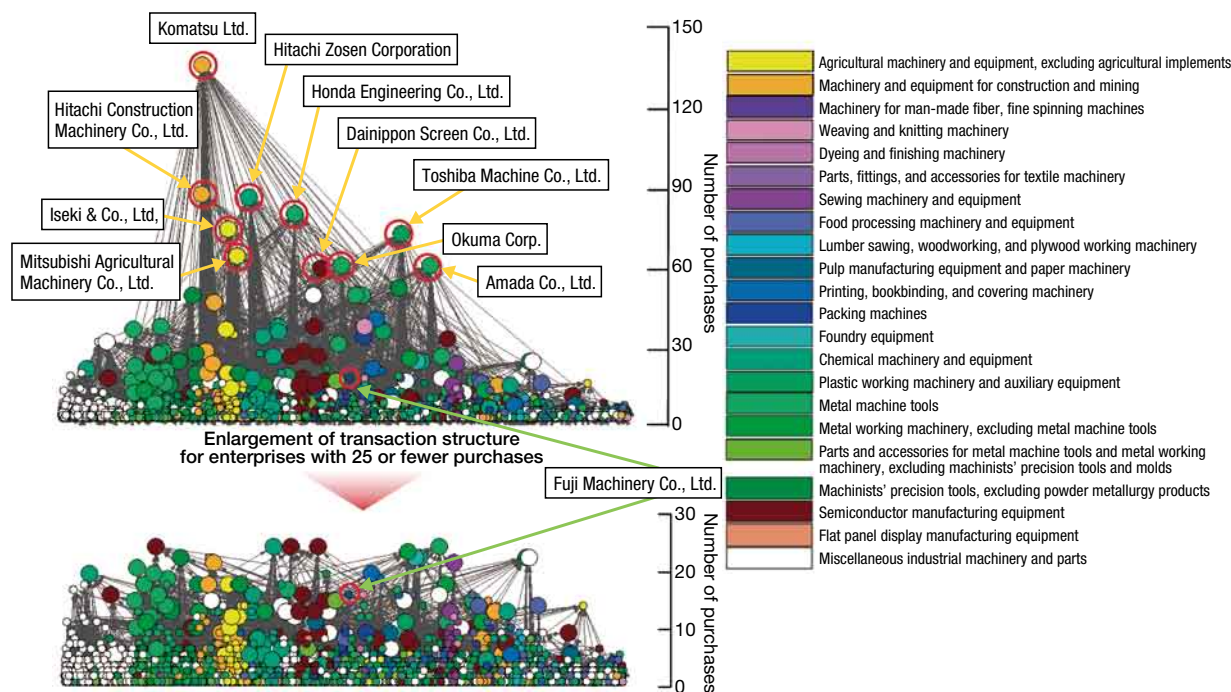
From its foundation in 1930 through to the 1960s, it made and sold Japanese pickles. However, it then embarked on full-fledged production and distribution of Korean *kimchi*, becoming one of the first companies in Japan to start making this traditional fermented dish in Japan.

Throughout the almost eight decades since it was established, the company has been committed to producing foods suited to consumers' tastes, and this dedication has led to its earning the confidence of its business partners. It has also acquired a strong reputation for quality and the ability to develop new products, as evidenced by its development of a less sour, fishy *kimchi* to suit the Japanese palate.

The reputation for trust and quality that it has built up over the years since it first began producing pickles has given it a network of ties with numerous retailers that has formed the backbone of its development. In addition to its extensive ties with food supermarkets in and around the Tokyo area, it has now also opened an outlet in the Tsukiji Outer Market, enabling it to cater to a wide range of customers extending from ordinary consumers to restaurants and other commercial demand.

### Appended note 2-1-6 Transaction structure in the production machinery industry

In the production machinery industry, there is one large enterprise, manufacturing construction and mining machinery, that has around 140 purchases, and three large enterprises that have around 90 purchases. There is one SME with numerous suppliers that contributes to many enterprises by developing packing-related technologies and manufacturing packaging machinery.



Source: Recompiled from Tokyo Shoko Research, Ltd., *TSR Enterprise Correlation Files (2010)*.

- Notes:
1. Transactions between enterprises are shown by lines. Large enterprises are indicated by large circles, and SMEs by small circles. The color of the circle indicates the principal minor category of industry of each enterprise as recorded in the Industry Minor Category Database.
  2. The transactions are drawn from a sample of transactions between enterprises in the same industry, and do not represent all the data contained in the Enterprise Correlation Files.
  3. The Enterprise Correlation Files were compiled from data as of the time of surveys and interviews by Tokyo Shoko Research, Ltd., and may now no longer pertain.

### Case for Appended note 2-1-6 Fuji Machinery Co., Ltd.

#### Contributing to many enterprises by developing packing-related technologies and manufacturing packaging machinery

Based in Nagoya City, Aichi Prefecture, with a workforce of 559 and capital of ¥154.77 million, Fuji Machinery Co., Ltd. is a specialist manufacturer of packing machines.

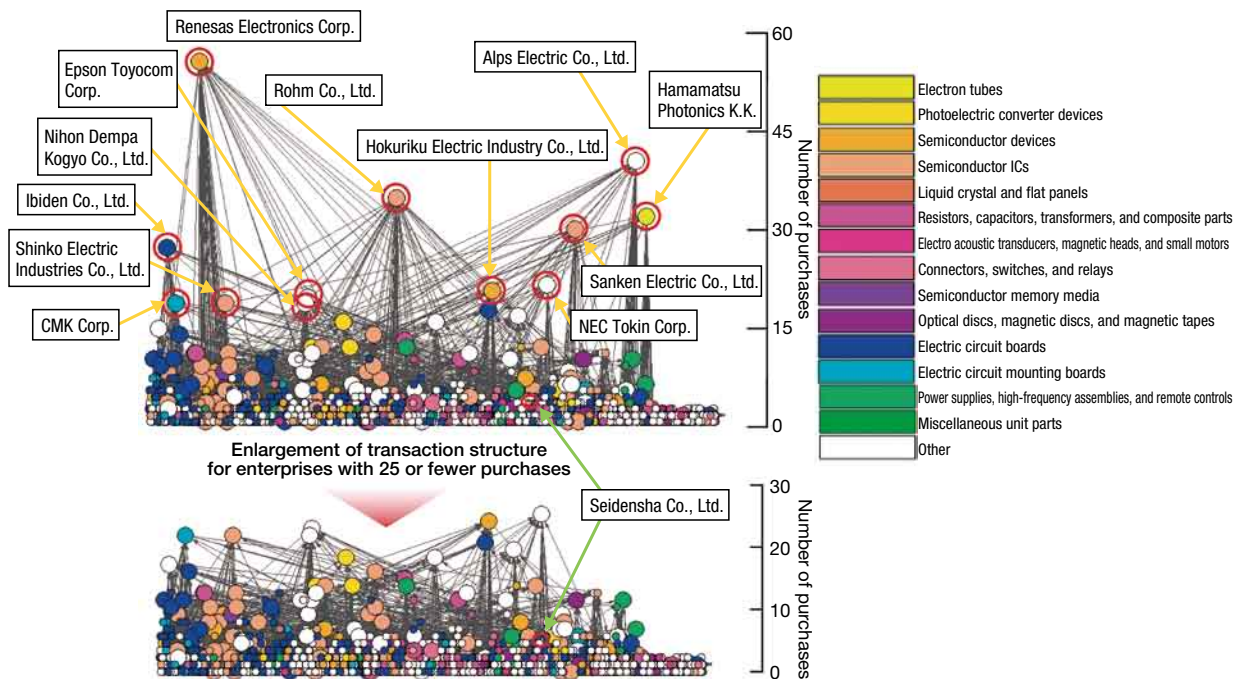
Ever since its foundation in 1946, Fuji Machinery has developed and manufactured not only machinery for packaging a variety of food products, such as caramels and chewing gum, but also machinery for boxing manufactured products and packing pallets and pharmaceuticals.

By developing packing technologies and manufacturing machinery suited to specific requirements, such as machinery to wrap meat, fish, and vegetables on trays and machinery to package cakes and sandwiches, it has been able to supply a variety of plants in Japan and abroad. With food safety and security and environmental concerns drawing more interest than ever, packing technology must now meet labor, energy, and resource saving needs as well as serve as a means of protecting products and displaying product information. Fuji Machinery therefore continues to pursue the development of technologies to meet these needs.



## Appended note 2-1-7 Transaction structure in the electronic parts, devices and electronic circuits industry

In the electronic parts, devices and electronic circuits industry, one large enterprise, manufacturing semiconductor devices, has approximately 60 purchases, and four large enterprises have approximately 40 purchases. One SME with many suppliers plays an essential role in business-to-business transactions in various fields of electrical equipment manufacturing.



Source: Recompiled from Tokyo Shoko Research, Ltd., *TSR Enterprise Correlation Files (2010)*.

- Notes:
1. Transactions between enterprises are shown by lines. Large enterprises are indicated by large circles, and SMEs by small circles. The color of the circle indicates the principal minor category of industry of each enterprise as recorded in the Industry Minor Category Database.
  2. The transactions are drawn from a sample of transactions between enterprises in the same industry, and do not represent all the data contained in the Enterprise Correlation Files.
  3. The Enterprise Correlation Files were compiled from data as of the time of surveys and interviews by Tokyo Shoko Research, Ltd., and may now no longer pertain.

## Case for Appended note 2-1-7 Seidensha Co., Ltd.

### A key link in business-to-business transactions in various areas of the electric equipment manufacturing industry

Based in Ota City, Tokyo, with a workforce of 40 and capital of ¥10 million, Seidensha Co., Ltd. fabricates electrical equipment from procured parts utilizing a variety of soldering technologies.

It takes on outsourced work for a variety of enterprises, which it performs at its Sekigahara Plant. Using hand-soldering techniques, it is able to provide highly flexible mounting services, while it also offers conventional lead soldering services on a separate line. Making use of its distinctive capabilities in areas such as the ability to mount power LEDs on aluminum substrates, it is developing its capacity to assemble soldered parts in order to deliver finished parts to outsourcers. It is able as a result to manufacture and distribute switches and also make LED lamps and display devices to order, driving its growth as a manufacturer of electronic and electrical parts and finished parts for electrical products.

Seidensha has thus grown to occupy a crucial position in business-to-business transactions in manufacturing, both as a supplier that fabricates, tests, and delivers finished parts, and as a client that places orders for materials and piece work on manufacturing processes.

In recent years, it has begun supplying large ferrite cores, which play an essential in the miniaturization of transformers and high-frequency processing<sup>1</sup> and are also used in electric vehicles' contactless power systems. It is additionally working on development of products with a view to marketing its own range.

- Note:
1. Devices made from powerfully magnetic metal oxides that are attached to cables used for personal computers, audio systems, etc. to prevent noise amplification of the electrical signals transmitted in them and to transmit high-efficiency electrical signals. They are the oval-shaped devices often seen on cables.

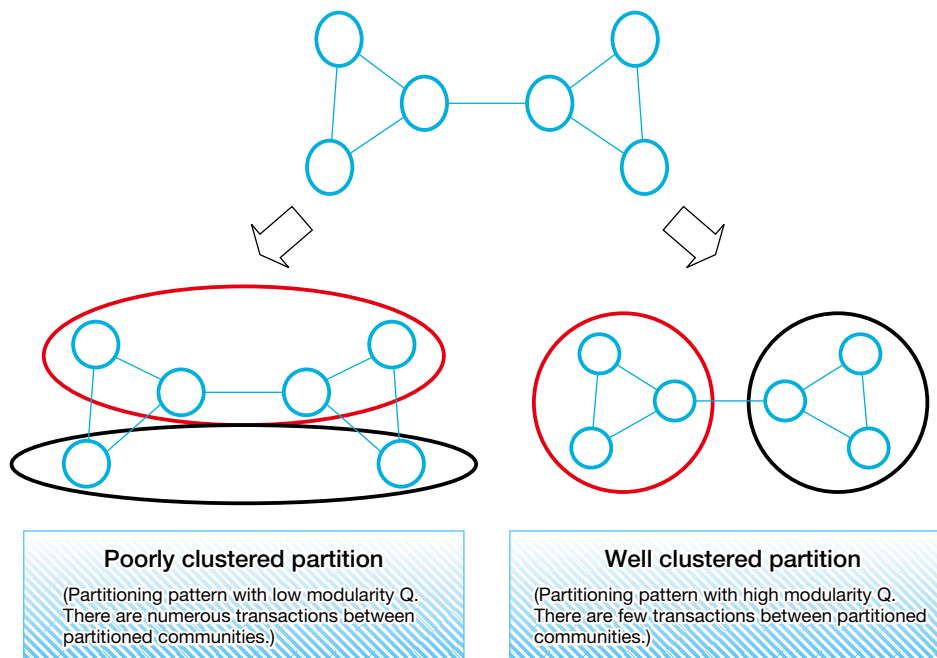
## Appended note 2-1-8 Abstraction of enterprise groups with close business relations

A group of enterprises in a network diagram is called a community. Out of the innumerable patterns by which enterprises can be divided into communities, the one that divides them up so that the proportion of transactions between enterprises within a community to the number of transactions between communities is highest represents the “best clustered” partitioning, which occurs when transactions within a community are dense but transactions between different communities are sparse. The enterprises in this analysis are positioned horizontally according to this form of “best clustered” partitioning, which is described in detail below.

### 1. Abstraction of communities

We begin by abstracting the “best clustered” partitioned communities employing a measure called modularity  $Q$ , which is calculated inside networks. Modularity  $Q$  is a quantitative measure of the “clustering of partitioning,” and the optimal community partitioning pattern is determined by abstracting the partitioning pattern that maximizes modularity  $Q$ . (Using modularity  $Q$ , enterprise groups are abstracted based on the proportion of transactions occurring within an enterprise group when business relations are randomly replaced whole maintaining the number of transactions engaged in by each enterprise.) The larger modularity  $Q$  is, the higher is the proportion of transactions within a community and the lower is the proportion of transactions between communities.<sup>1</sup>

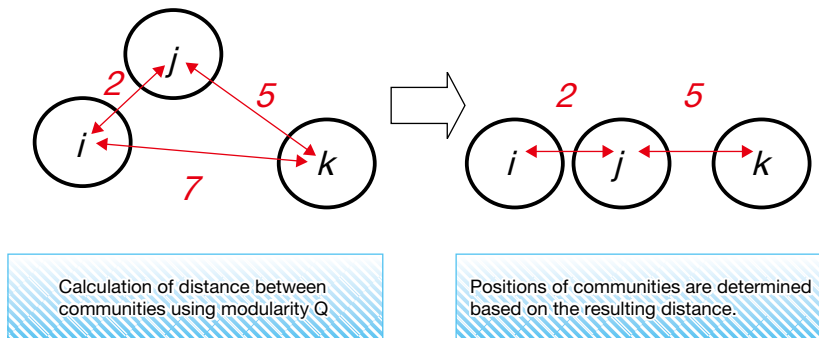
### Appended note 2-1-8 (1) Example of community partitioning



### 2. Horizontal placement of communities

The communities thus abstracted are next arranged according to their affinity to one another so that those with high affinity are placed closer together and those with low affinity are placed further apart. This is done by determining the distances between communities by calculating the extent to which modularity would decline if two communities were to be merged, and determining the positions of the communities based on this distance. The distance is smaller (affinity is greater) when the decrease in modularity  $Q$  when communities are merged is small, and the distance is greater (affinity is lower) when the decrease is larger. Each enterprise in a community is placed randomly in the horizontal direction.

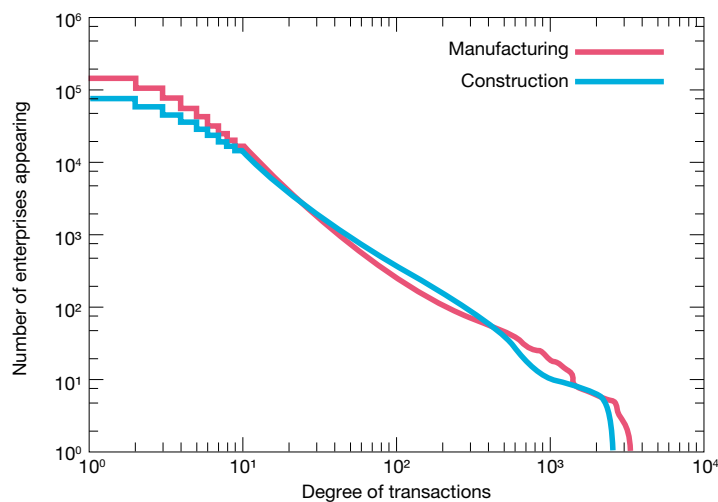
### Appended note 2-1-8 (2) Example of community partitioning



Note 1: For details, see Clauset, Newman, and Moore (2004), "Finding community structure in very large networks," *Physical Review E*, Vol. 70, Issue 6, p. 66111.

### Appended note 2-1-9 Distribution of number of transactions per enterprise in construction and manufacturing

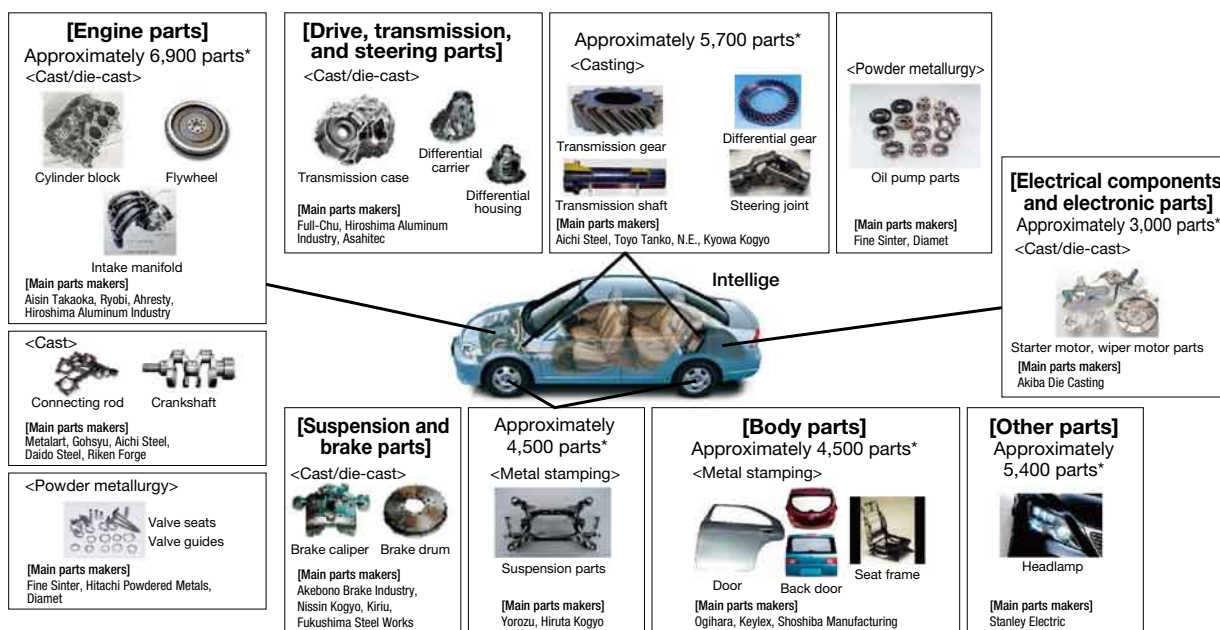
Construction has more SMEs with few business partners than manufacturing.



Source: Produced by Professor Hiroshi Ietomi of the Department of Physics, Niigata University, from Tokyo Shoko Research Ltd., *TSR Enterprise Correlation Files (2006)*.

Note: Transaction networks are shown for construction and manufacturing by plotting the degree of transactions (number of business partners) on the horizontal axis and the extent to which enterprises with the respective degrees of transactions are present in transaction networks (number of enterprises appearing) on the vertical axis.

### Appended note 2-1-10 Main near-net-shaped components of automobiles

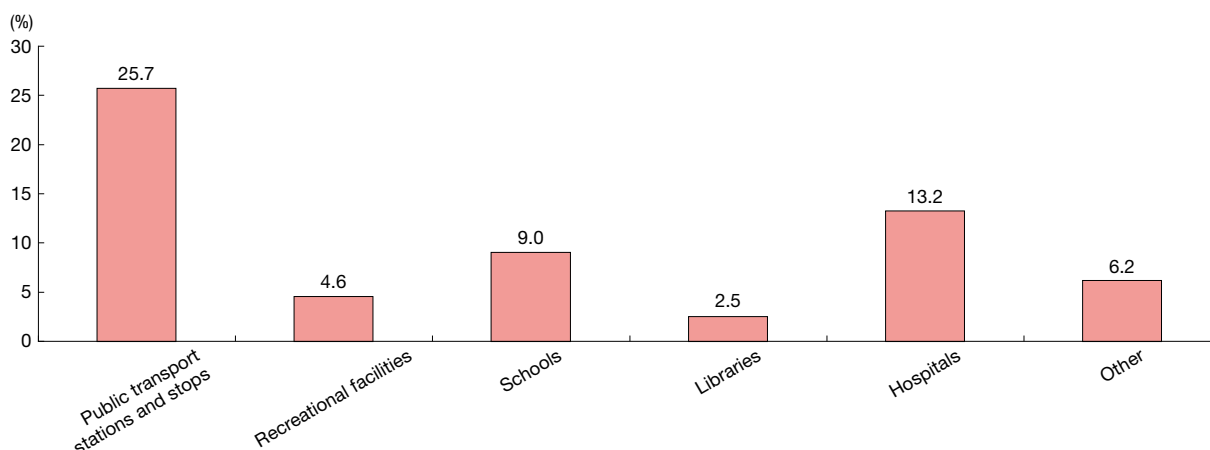


Source: METI, *New Vision for the Sokeizai Industry (Addendum)*.

- Notes: 1. Figures are based on use of a total of 30,000 parts in a single automobile.  
2. Compiled based on data from the Japan Auto Parts Industries Association.

### Appended note 2-1-11 Presence of customer attractions other than stores

The commonest non-store attractions in shopping districts are train and bus stations, though these account for less than 30% (25.7%) at most.

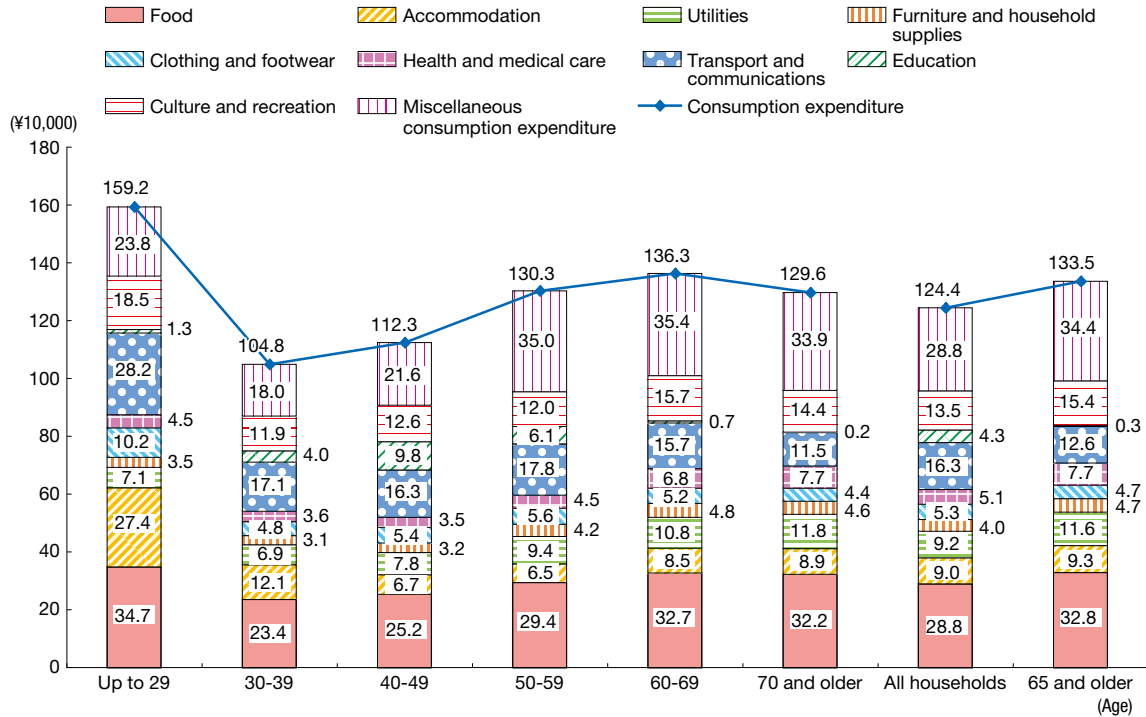


Source: MRI, *National Shopping District Survey (November 2010)*, commissioned by SME Agency.

Note: Totals do not necessarily sum to 100 due to multiple responses.

## Appended note 2-1-12 Annual expenditure per household member by age group of household head

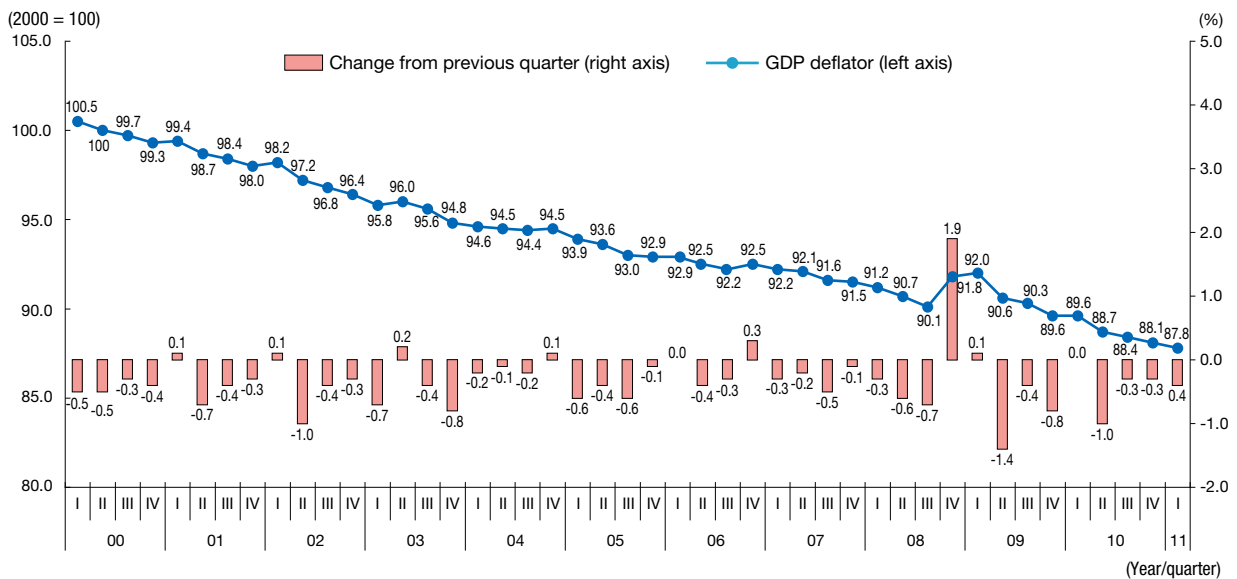
Elderly households spend more than the overall average, with expenditure highest in the under-30 age group, followed by the 60-69, 50-59, and 70-and-older age groups.



Source: Calculated by the Cabinet Office from MIC, *Family Income and Expenditure Survey (All Households)* (2008).  
 Note: Annual expenditure was calculated by multiplying monthly data by 12 and then dividing by the average number of household members.

## Appended note 2-1-13 Movements in the GDP deflator

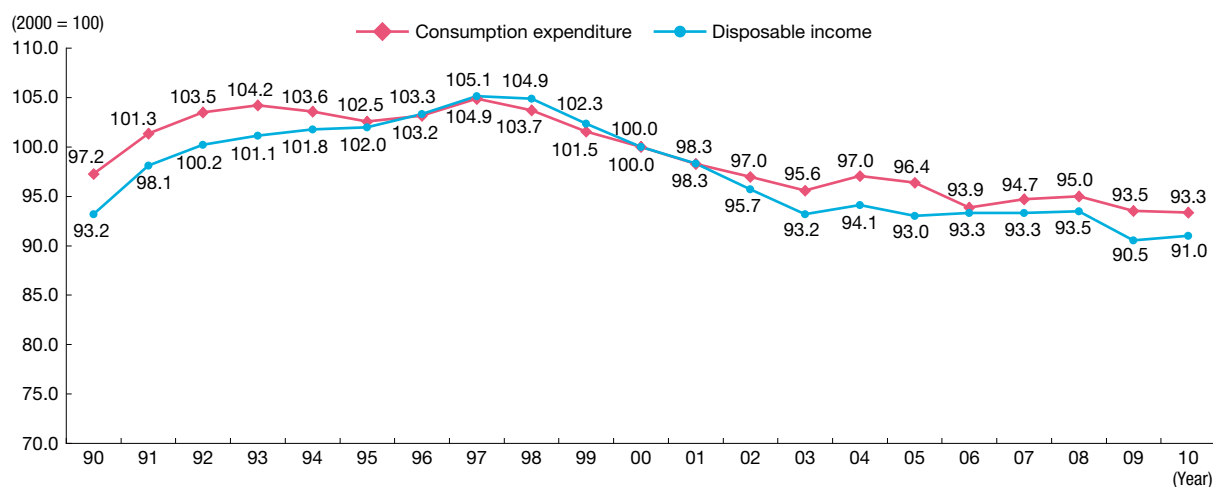
The GDP deflator is following a downward trend and recent data shows that the decline continues.



Source: Cabinet Office, *National Accounts: Quarterly Preliminary Report*.  
 Note: Seasonally adjusted series.

### Appended note 2-1-14 Consumption expenditure and disposable income

Consumption expenditure and disposable income have both trended downward since 1997.

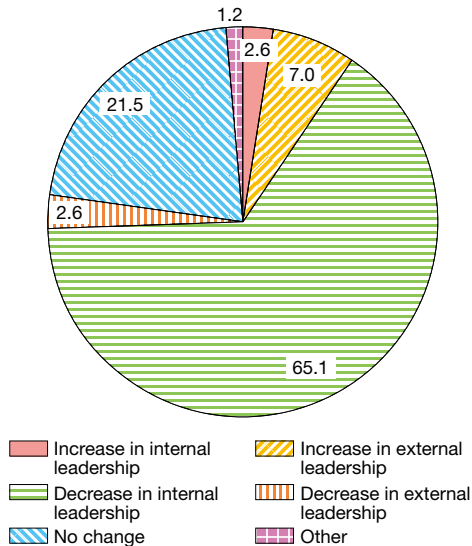


Source: MIC, *Family Income and Expenditure Survey* (workers' households consisting of at least two persons, excluding households of agricultural, forestry and fisheries workers).

## Appended note 2-1-15 Changes in leadership of stores and average age of persons engaged in small retailing

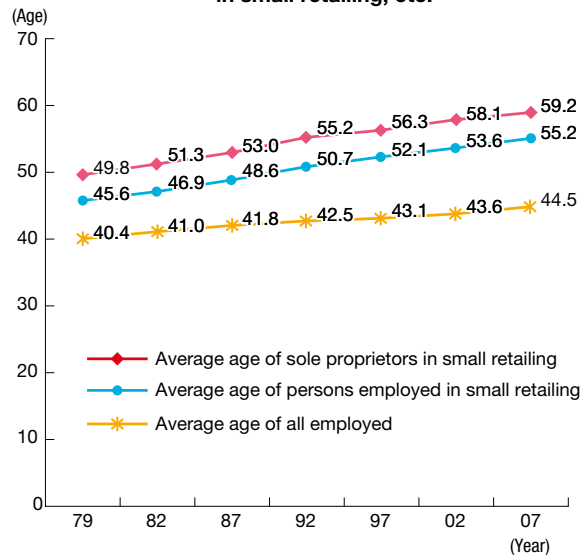
65.1% of shopping districts expect a “decrease in internal leadership.” Persons employed in small retailing are on average older than those employed in other industries, and the average age is increasing by the year.

**Change in leadership of stores in shopping district over next five years (%)**



Source: MRI, *National Shopping District Survey* (November 2010), commissioned by SME Agency.

**Trend in average age of persons engaged in small retailing, etc.**



Source: Recompiled from MIC, *Employment Status Survey*.

Note: “Small retailing” consists of retailers with one to four workers (including business owners, etc.).

## Appended note 2-2-1 Outline of Counter-cyclical Emergency Guarantee Program

- Period of operation  
Commenced on October 31, 2008, and terminated on March 31, 2011
- Guarantees provided  
¥27.2 trillion
- Guarantees provided by credit guarantee corporations when SMEs borrow from private financial institutions
- Extensive support provided by central government through allocation of large budget (for investment in the JFC and subsidization of credit guarantee corporations)
- **100% guarantees (80% in case of ordinary guarantees)**
- Guarantee ceiling of ¥80 million for unsecured loans and ¥200 million for ordinary loans  
\*Separate from ordinary guarantees.

## Appended note 2-2-2 Extension of period of effect of the SME Financing Facilitation Act

**Measures to date**

Various steps have been taken to facilitate financing, including enactment of the SME Financing Facilitation Act, since the “Lehman crisis.”

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**Future support**

**Basic stance**

- SMEs’ business conditions and financial positions are improving, but remain severe. Because of consequent uncertainty over the future, there is likely to remain a certain degree of demand for loan modifications, etc.
- In the interest of maintaining financial discipline, however, it is also important that borrowers formulate and implement effective restructuring plans.
- Taking advantage of the SME Financing Facilitation Act, it is important to ensure that the following process of support be embedded:
  - exercise of consulting functions by financial institutions while modifying loans, etc.
  - to steadily promote business improvements by SMEs
  - leading to improvements in SMEs’ ability to repay loans.

↓

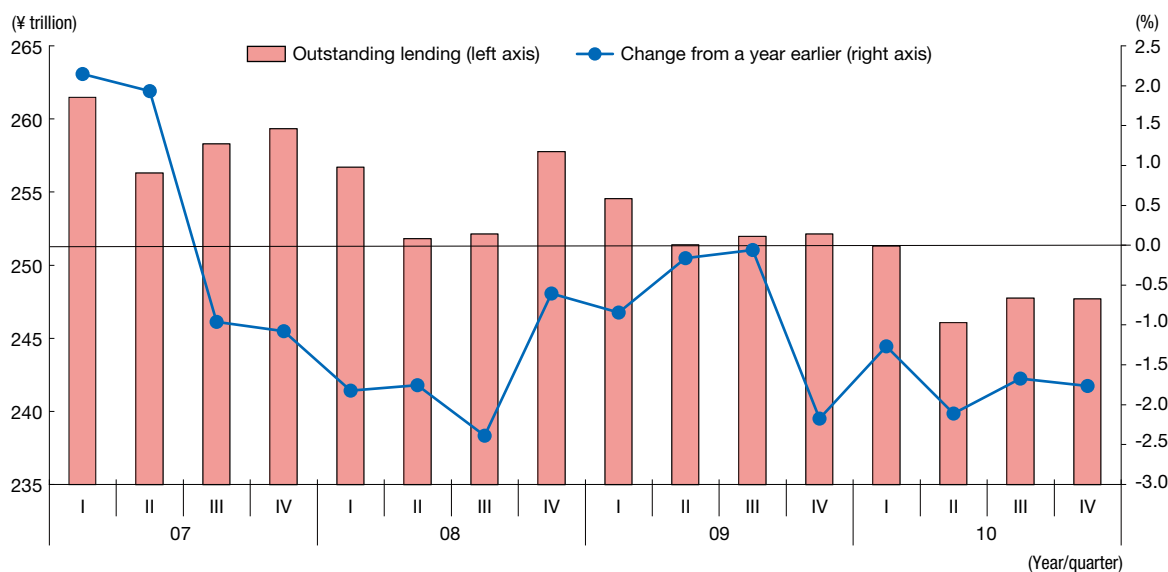
**Specific support**

Measures such as the following will be implemented to provide continued full support for the financing of SMEs with the aim of developing an environment in which financial institutions can appropriately exercise their financial intermediary functions even after the termination of effect of the above act.

- One-year extension of the SME Financing Facilitation Act
- Encouragement of exercising of consulting functions by financial institutions
  - Revision of supervision guidelines to flesh out appropriate role to ensure that financial institutions engage actively in providing business advice and guidance, helping with restructuring planning, and assisting full-blown business rehabilitation
  - Performance of inspections in accordance with the “Manual on Facilitation of Finance” (regarding the state of implementation of consulting functions, etc.) as part of ordinary inspections following inspections of legal compliance
- Revision of financial institutions’ disclosure and reporting requirements
  - Major streamlining of materials to be disclosed and reported by financial institutions (to reduce administrative burden of disclosure and reporting)

## Appended note 2-2-3 Trends in outstanding lending to SMEs

Outstanding lending to SMEs has trended downward year on year since the third quarter of 2007.

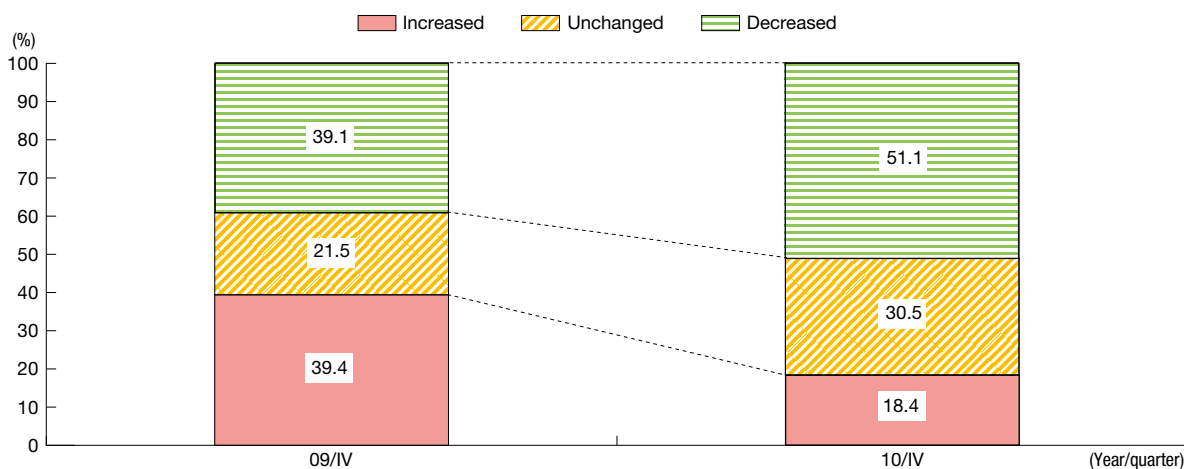


Source: Compiled by SME Agency from sources including BOJ, *Financial and Economic Statistics Monthly*.



## Appended note 2-2-4 Average outstanding lending to SMEs

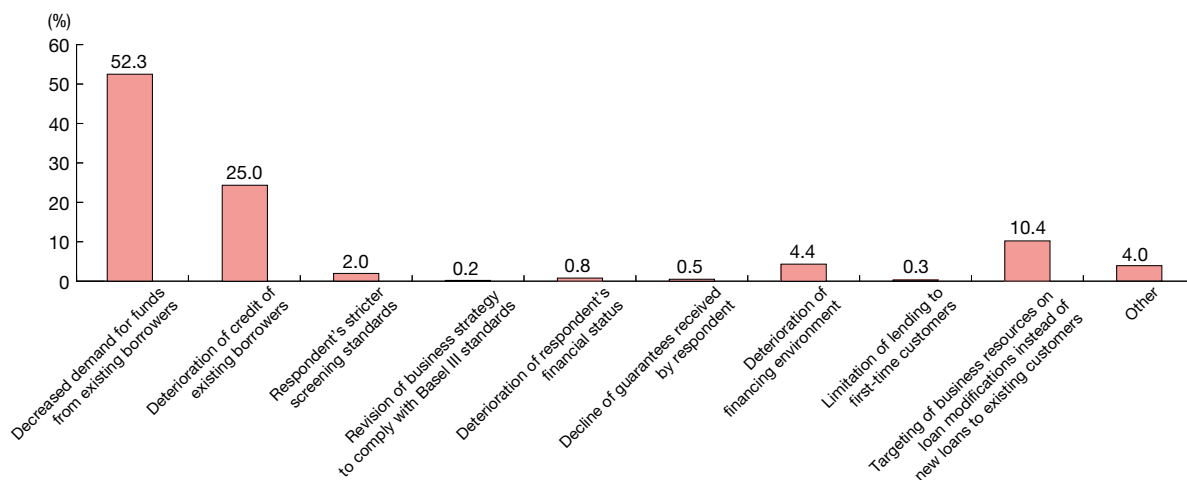
Fewer financial institutions reported that average outstanding lending to SMEs is growing.



Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for Small and Medium Enterprises* (November 2010), commissioned by SME Agency.

## Appended note 2-2-5 Reasons for decrease of average outstanding lending to SMEs

Approximately 50% of financial institutions answered “decreased demand for funds from existing borrowers.”

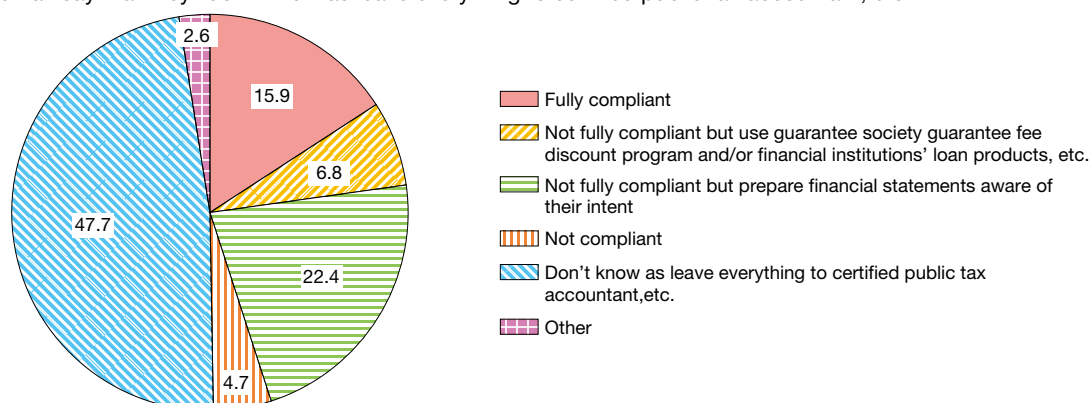


Source: Mitsubishi UFJ Research & Consulting Co., Ltd., *Survey of Loans for Small and Medium Enterprises* (November 2010), commissioned by SME Agency.

- Notes:
1. Based on financial institutions that reported a decline in average outstanding lending to SMEs in either the fourth quarter of 2009 or the fourth quarter of 2010.
  2. Basel III is a new regulatory standard on bank capital adequacy announced by the Basel Committee on Banking Supervision in September 2010. It strengthens regulation by, among other things, raising the required holding of narrowly defined core capital (core Tier 1 capital) from 2% at present to 4.5%, and setting the minimum core Tier 1 ratio (including a conservation buffer) at 7%. These requirements are to be phased in by January 2015.
  3. The results were calculated by scoring responses as follows: 3 points for the most important, 2 points for the second most important, and 1 point for the third most important.

### Appended note 2-2-6 SMEs' preparation of financial statements in accordance with accounting standards

Around half say that they "don't know as leave everything to certified public tax accountant, etc."



Source: Ernst & Young Japan, *Survey of Accounting by Small and Medium Enterprises, 2009* (March 2010), commissioned by SME Agency.

Note: The above survey consisted of a questionnaire survey of 8,000 SMEs. The response rate was 25.1%. It must be borne in mind that this survey was conducted before the Great East Japan Earthquake.

### Appended note 3-1-1 Relationship between entrepreneur attributes and sales, ordinary profit, and balance of revenues and expenditures in the three years up to the Lehman crisis (September 2008)

#### 1. Model

##### Dependent variables:

- 1) Sales over three years up to Lehman crisis (September 2008)  
(upward trend = 1, unchanging/downward trend = 0)
- 2) Ordinary profit over three years up to Lehman crisis (September 2008)  
(upward trend = 1, unchanging/downward trend = 0)
- 3) Balance of revenues and expenditures over three years up to Lehman crisis (September 2008)  
(profit = 1, equal/loss = 0)

##### Explanatory variables:

- 1) Active entrepreneur dummy, 2) Partner dummy, 3) Incorporated startup dummy,
- 4) Startup adviser dummy, 5) Business innovation dummy, 6) Sense of financial sufficiency dummy,
- 7) Investment by venture capital fund, etc. dummy, 8) Male dummy,
- 9) Age at startup dummy, 10) Education (at least university) dummy, 11) Assets,
- 12) Parent's occupation dummy, 13) Occupational experience dummy, 14) Management experience dummy,
- 15) Use of startup support dummy

Estimation method: Probit analysis

#### 2. Data set

Teikoku Databank, Ltd., *Fact-finding Survey on Startups* (December 2010), commissioned by SME Agency.

#### 3. Estimation results

##### 1) Sales

	Estimated coefficient	Standard error	Significance level	Marginal effect	Baseline
Constant term	-0.323	0.316		-0.121	
Active entrepreneur dummy	0.382	0.111	***	0.143	Active entrepreneur = 1
Partner dummy	0.211	0.123	*	0.079	Started up with associate(s) = 1
Incorporated startup dummy	-0.013	0.100		-0.005	Incorporated startup = 1
Startup adviser dummy	0.161	0.094	*	0.060	Had adviser at startup = 1
Business innovation dummy	0.232	0.085	***	0.087	Entered making management innovation = 1
Sense of financial sufficiency dummy	0.080	0.088		0.030	Had more than necessary funds to finance startup = 1
Investment by venture capital fund, etc. dummy	-0.447	0.408		-0.167	Received venture capital or other investment = 1
Male dummy	0.073	0.188		0.027	Male entrepreneur = 1
Age at startup	-0.012	0.004	***	-0.004	Age at startup
Education (at least university) dummy	0.309	0.085	***	0.115	Entrepreneur is at least university graduate = 1
Assets	-0.000	0.000		-0.000	Assets owned at startup (median of class)
Parent's occupation dummy	-0.032	0.087		-0.012	Entrepreneur's parent was company or sole proprietor (including family business) = 1
Occupational experience dummy	0.129	0.139		0.048	Had employment experience = 1
Management experience dummy	0.029	0.099		0.011	Had management experience = 1
Use of startup support dummy	0.192	0.085	**	0.072	Used startup support = 1
Log likelihood					-643.029
Sample size					986

Significance levels: \*\*\* = 1%, \*\* = 5%, \* = 10%

2) Ordinary profit

	Estimated coefficient	Standard error	Significance level	Marginal effect	Baseline
Constant term	-0.744	0.328	**	-0.278	
Active entrepreneur dummy	0.434	0.119	***	0.162	Active entrepreneur = 1
Partner dummy	0.098	0.125		0.037	Started up with associate(s) = 1
Incorporated startup dummy	0.065	0.103		0.024	Incorporated startup = 1
Startup adviser dummy	0.082	0.095		0.031	Had adviser at startup = 1
Business innovation dummy	0.178	0.087	**	0.066	Entered making management innovation = 1
Sense of financial sufficiency dummy	0.000	0.090		0.000	Had more than necessary funds to finance startup = 1
Investment by venture capital fund, etc. dummy	-0.838	0.468	*	-0.313	Received venture capital or other investment = 1
Male dummy	0.204	0.197		0.076	Male entrepreneur = 1
Age at startup	-0.008	0.004	*	-0.003	Age at startup
Education (at least university) dummy	0.294	0.087	***	0.110	Entrepreneur is at least university graduate = 1
Assets	-0.000	0.000		-0.000	Assets owned at startup (median of class)
Parent's occupation dummy	0.024	0.089		0.009	Entrepreneur's parent was company or sole proprietor (including family business) = 1
Occupational experience dummy	-0.091	0.141		-0.034	Had employment experience = 1
Management experience dummy	0.124	0.102		0.046	Had management experience = 1
Use of startup support dummy	0.108	0.086		0.040	Used startup support = 1
Log likelihood					-614.103
Sample size					942

Significance levels: \*\*\* = 1%, \*\* = 5%, \* = 10%

3) Balance of revenues and expenditures

	Estimated coefficient	Standard error	Significance level	Marginal effect	Baseline
Constant term	-0.316	0.289		-0.123	
Active entrepreneur dummy	0.236	0.103	**	0.092	Active entrepreneur = 1
Partner dummy	0.162	0.111		0.063	Started up with associate(s) = 1
Incorporated startup dummy	-0.088	0.093		-0.034	Incorporated startup = 1
Startup adviser dummy	0.034	0.087		0.013	Had adviser at startup = 1
Business innovation dummy	0.105	0.078		0.041	Entered making management innovation = 1
Sense of financial sufficiency dummy	0.149	0.081	*	0.058	Had more than necessary funds to finance startup = 1
Investment by venture capital fund, etc. dummy	-0.583	0.420		-0.227	Received venture capital or other investment = 1
Male dummy	0.132	0.171		0.051	Male entrepreneur = 1
Age at startup	-0.009	0.004	**	-0.003	Age at startup
Education (at least university) dummy	0.164	0.079	**	0.064	Entrepreneur is at least university graduate = 1
Assets	0.000	0.000		0.000	Assets owned at startup (median of class)
Parent's occupation dummy	0.105	0.080		0.041	Entrepreneur's parent was company or sole proprietor (including family business) = 1
Occupational experience dummy	0.115	0.125		0.045	Had employment experience = 1
Management experience dummy	-0.008	0.091		-0.003	Had management experience = 1
Use of startup support dummy	-0.006	0.078		-0.002	Used startup support = 1
Log likelihood					-758.764
Sample size					1,120

Significance levels: \*\*\* = 1%, \*\* = 5%, \* = 10%

**Appended note 3-2-1 Proportions engaging in specific actions in manufacturing and non-manufacturing and perceived time required for them to take effect**

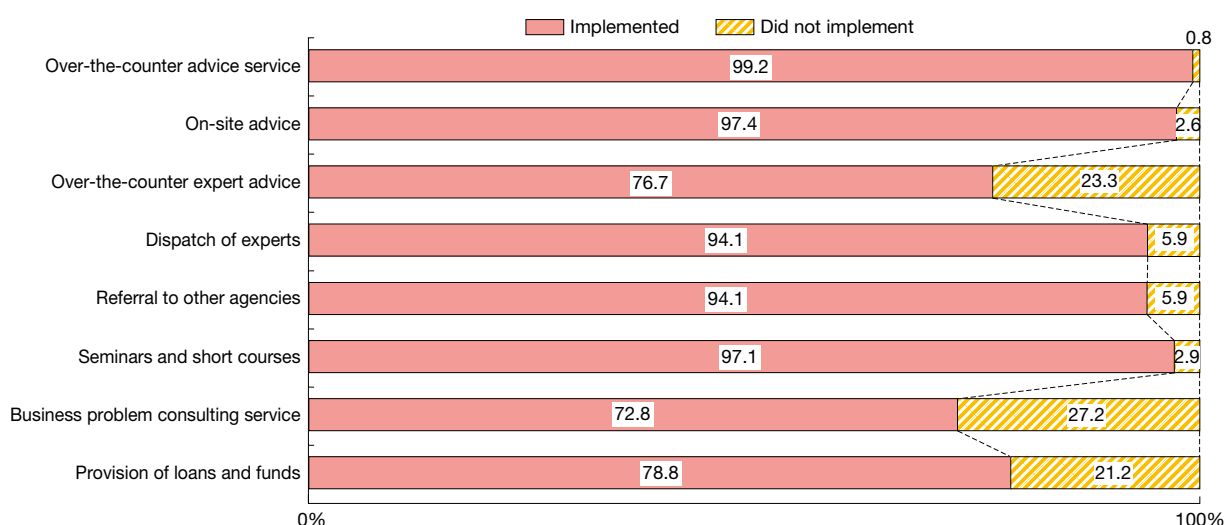
No major differences are observable between manufacturing and non-manufacturing.

		Manufacturing		Non-manufacturing		Manufacturing				Non-manufacturing			
		Implemented	Did not implement	Implemented	Did not implement	After 1-2 years	After 5 years	After 10 years	Effects not yet apparent	After 1-2 years	After 5 years	After 10 years	Effects not yet apparent
Expansion of clientele	Maintenance of stable quality of goods and services	78.2	21.8	67.5	32.5	50.3	18.7	5.4	25.6	50.1	15.3	4.8	29.9
	Development and provision of new goods and services	58.4	41.6	65.1	34.9	41.9	24.7	4.0	29.4	51.7	15.5	1.8	31.0
	Export overseas	16.6	83.4	6.3	93.7	59.9	16.2	3.6	20.3	63.0	9.6	0.0	27.4
	Foreign direct investment	6.4	93.6	3.3	96.7	53.8	21.8	5.1	19.2	35.9	20.5	0.0	43.6
Raising spending per customer	Enhancement of ability to put proposals to customers	55.7	44.3	65.8	34.2	45.8	14.7	3.6	36.0	46.3	14.2	2.7	36.8
	Development and provision of highly differentiated goods and services	54.1	45.9	57.4	42.6	49.5	18.2	4.2	28.2	51.8	15.1	4.0	29.2
	Enhancement of brand	31.1	68.9	36.2	63.8	42.3	22.0	7.0	28.7	47.4	15.9	5.9	30.8
	Targeting of specific markets (regions, ages, etc.)	13.3	86.7	21.4	78.6	54.4	18.1	4.7	22.8	46.7	16.3	3.7	33.3
Hiring and development of human resources	Adjustment and revision of staffing according to business goals	60.4	39.6	60.3	39.7	65.1	14.9	2.7	17.3	62.2	14.8	2.6	20.4
	Development of human resources necessary to meet ability requirements	56.6	43.4	53.2	46.8	48.7	21.8	3.7	25.8	52.8	19.7	3.3	24.2
	Enhancement of recruitment activities	36.4	63.6	39.0	61.0	55.1	19.0	5.0	20.9	55.6	18.5	1.8	24.1
	Promotion of work-life balance	20.6	79.4	20.8	79.2	50.9	11.6	3.2	34.3	51.9	7.8	2.6	37.7
Technological innovation	Improvement of existing products	71.1	28.9	35.9	64.1	58.8	14.4	4.7	22.1	59.5	13.9	4.1	22.4
	Improvement of production lines and manufacturing methods	67.3	32.7	19.8	80.2	66.9	12.9	4.6	15.6	65.3	13.1	3.8	17.8
	Technological development	50.9	49.1	20.7	79.3	40.2	25.4	6.8	27.5	48.4	23.6	4.0	24.0
	R&D	40.8	59.2	15.5	84.5	32.7	29.4	6.6	31.4	40.8	21.9	4.7	32.5
Business process reform	Allocation of right people for the right job at each stage	64.0	36.0	40.6	59.4	69.8	10.3	2.7	17.2	66.5	9.0	1.8	22.6
	Revision of personnel and time inputs into each business process	53.4	46.6	33.7	66.3	73.4	8.2	2.1	16.3	71.7	8.0	1.7	18.6
	Use of outsourcing	42.6	57.4	33.5	66.5	74.2	9.1	4.4	12.3	77.2	5.6	3.9	13.2
	Integration of shared business processes	40.0	60.0	33.2	66.8	69.5	11.2	1.9	17.4	74.0	8.2	1.1	16.7
Adoption of IT	Introduction of PCs	86.8	13.2	92.5	7.5	77.5	9.9	4.2	8.4	79.6	8.0	5.0	7.4
	Connection to networks	71.8	28.2	77.4	22.6	79.1	8.3	3.8	8.9	81.6	6.8	3.8	7.9
	Use of e-commerce	21.7	78.3	25.0	75.0	73.8	5.2	1.2	19.8	78.9	6.3	0.7	14.1
	Use of cloud computing	2.5	97.5	5.4	94.6	59.3	11.1	3.7	25.9	81.4	6.8	0.0	11.9
Automation	Introduction of OA equipment in back-office departments	68.7	31.3	65.3	34.7	74.1	12.0	5.0	8.9	78.9	7.4	4.7	9.0
	Introduction of equipment in process to manufacture/provide goods and services	56.3	43.7	26.7	73.3	76.6	11.6	3.2	8.7	76.5	8.2	4.4	10.9
	Introduction of control systems for OA equipment in back-office departments	38.6	61.4	33.0	67.0	76.1	11.1	4.1	8.8	78.5	7.9	4.9	8.7
	Introduction of system control of machinery used in process of manufacture/provision of goods and services	35.5	64.5	16.4	83.6	75.7	12.7	3.3	8.4	76.7	8.3	5.0	10.0
Energy conservation	Energy conservation through practice	56.2	43.8	49.4	50.6	70.7	6.1	2.0	21.3	70.8	5.2	2.1	21.9
	Energy conservation through investment	29.7	70.3	18.9	81.1	77.6	8.5	1.3	12.6	75.8	4.7	3.2	16.3

Source: NRI, Survey on Labor Productivity (November 2010), commissioned by SME Agency.

### Appended note 3-2-2 State of action by support agencies

While almost all agencies provide advice and organize seminars and short courses, approximately 70% provide consulting services.



Source: NRI, *Survey on Labor Productivity* (November 2010), commissioned by SME Agency.

### Appended note 3-2-3 Numbers and proportions of exporting enterprises by industry (SMMs)

Major industry group	Number of exporting enterprises	Proportion of exporting enterprises
Foods	151	0.5%
Beverages, tobacco, and animal feed	129	3.0%
Textiles	188	1.0%
Wood and wood products (excluding furniture)	25	0.3%
Furniture and fixtures	32	0.4%
Pulp, paper, and paper products	82	1.3%
Printing and allied industries	40	0.3%
Chemicals	499	14.0%
Petroleum and coal products	30	5.6%
Plastic products (excluding otherwise shown)	316	2.3%
Rubber products	87	3.0%
Leather tanning, leather products, and fur skins	24	1.1%
Ceramic, stone, and clay products	186	1.7%
Iron and steel	76	1.8%
Non-ferrous metals	110	3.9%
Fabricated metals	421	1.3%
General-purpose machinery	345	4.3%
Production machinery	1,102	5.0%
Business-oriented machinery	357	7.3%
Electronic parts, devices, and electronic circuits	280	5.9%
Electrical machinery	483	4.8%
Information and communication electronics equipment	120	5.8%
Transport equipment	236	2.3%
Other manufacturing	287	2.9%
<b>Total</b>	<b>5,606</b>	<b>2.4%</b>

Source: Recompiled from METI, *2008 Census of Manufactures*.

Note: *Census of Manufactures* data on business establishments was re-aggregated to produce data at the enterprise level. Accordingly, establishments engaging in direct exports are categorized according to the industrial classification of the enterprise to which they belong.

### Appended note 3-2-4 Numbers and proportions of exporting enterprises by prefecture (SMMs)

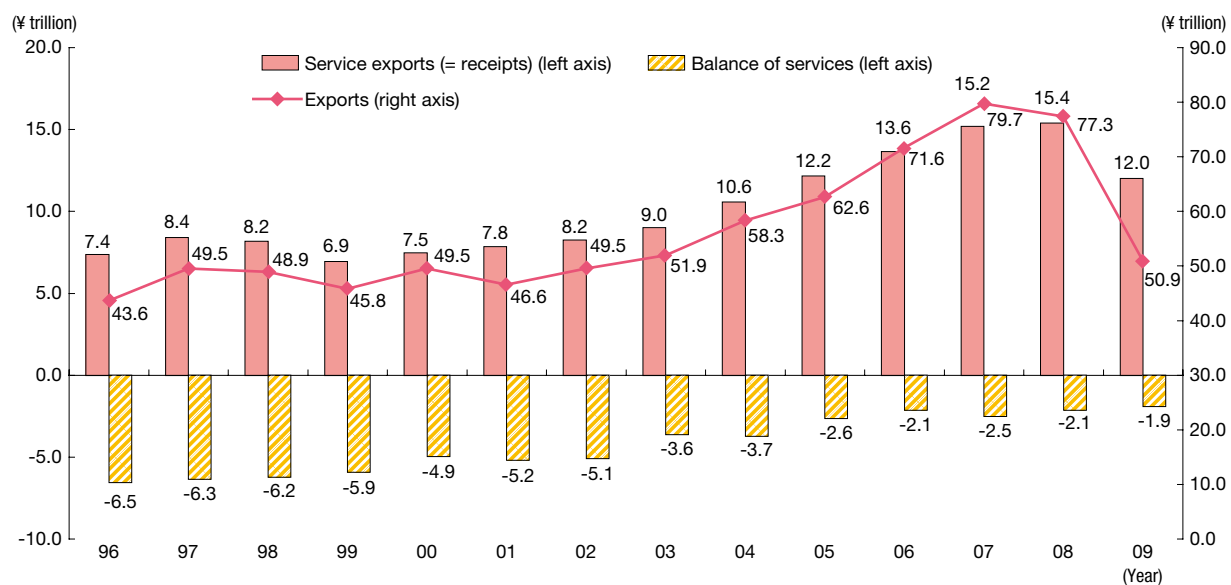
Prefecture of head office	Number of exporting enterprises	Proportion of exporting enterprises	Prefecture of head office	Number of exporting enterprises	Proportion of exporting enterprises
Hokkaido	30	0.5%	Shiga	97	3.6%
Aomori	21	1.3%	Kyoto	147	2.7%
Iwate	22	1.0%	Osaka	646	2.8%
Miyagi	39	1.3%	Hyogo	296	3.0%
Akita	29	1.4%	Nara	65	2.6%
Yamagata	50	1.8%	Wakayama	35	1.7%
Fukushima	70	1.7%	Tottori	20	2.1%
Ibaraki	110	2.0%	Shimane	17	1.2%
Tochigi	84	1.8%	Okayama	81	2.3%
Gunma	87	1.5%	Hiroshima	102	1.9%
Saitama	370	2.7%	Yamaguchi	38	2.0%
Chiba	166	2.9%	Tokushima	21	1.4%
Tokyo	714	3.6%	Kagawa	27	1.2%
Kanagawa	382	3.9%	Ehime	43	1.7%
Niigata	133	2.2%	Kochi	17	1.5%
Toyama	46	1.5%	Fukuoka	121	2.0%
Ishikawa	47	1.3%	Saga	35	2.4%
Fukui	86	3.3%	Nagasaki	18	0.9%
Yamanashi	62	2.8%	Kumamoto	29	1.3%
Nagano	225	3.9%	Oita	13	0.8%
Gifu	134	1.9%	Miyazaki	17	1.1%
Shizuoka	262	2.4%	Kagoshima	22	0.9%
Aichi	415	2.1%	Okinawa	10	0.7%
Mie	105	2.6%	<b>Total</b>	<b>5,606</b>	<b>2.4%</b>

Source: Recompiled from METI, 2008 *Census of Manufactures*.

Note: *Census of Manufactures* data on business establishments was re-aggregated to produce data at the enterprise level. Accordingly, establishments engaging in direct exports are categorized according to the location of the head office of the enterprise to which they belong.

### Appended note 3-2-5 Trend in Japan's balance of services and comparison with balance of trade (exports)

The balance of services remains in deficit, but the scale of the deficit is improving. Receipts in the balance of services are also low in comparison with exports in the balance of trade.



Source: BOJ, *Balance of Payments*.

### Appended note 3-2-6 Numbers and proportions of FDI enterprises by industry (SMEs)

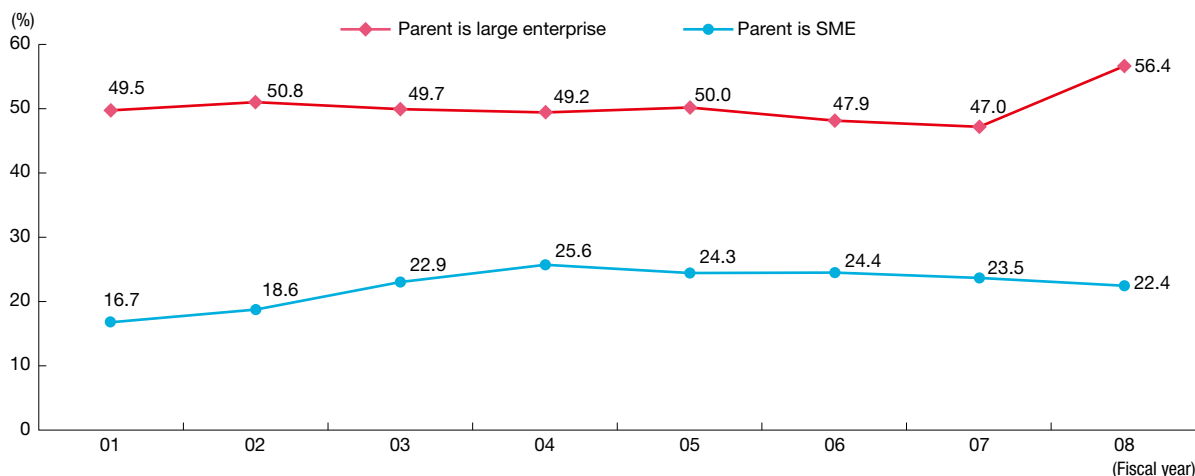
Industry division	Major industry group	Number of FDI enterprises	Proportion of FDI enterprises
Mining		20	1.15%
Construction		256	0.09%
Manufacturing		3,484	1.36%
Of which	Foods	141	0.60%
	Beverages, tobacco, and animal feed	18	0.44%
	Textiles (excluding apparel and other textile products)	98	1.28%
	Clothing and other textile products	200	1.45%
	Wood and wood products (excluding furniture)	30	0.40%
	Furniture and fixtures	43	0.48%
	Pulp, paper, and paper products	63	0.95%
	Printing and allied industries	75	0.32%
	Chemicals	182	4.29%
	Petroleum and coal products	18	4.59%
	Plastic products (excluding otherwise shown)	251	1.97%
	Rubber products	77	2.82%
	Leather tanning, leather products, and fur skins	41	1.85%
	Ceramic, stone, and clay products	69	0.67%
	Iron and steel	66	1.73%
	Non-ferrous metals	74	2.72%
	Fabricated metals	305	0.90%
	General machinery	622	1.67%
	Electrical machinery	247	2.17%
	Information and communication electronics equipment	85	3.23%
	Electronic parts and devices	258	3.81%
	Transport equipment	243	2.04%
	Precision instruments	150	2.53%
	Other manufacturing	128	1.03%
Electricity, gas, heat supply and water		6	1.12%
Information and communications		383	1.23%
Transport		306	0.66%
Wholesale/retail trades		2,089	0.48%
Of which	Wholesale trade	1,757	1.02%
	Retail trade	332	0.13%
Finance and insurance		93	0.53%
Real estate		184	0.18%
Eating and drinking places and accommodations		91	0.11%
Medical, health care and welfare		22	0.15%
Education and learning support		38	0.32%
Compound services		0	—
Services (not otherwise classified)		579	0.28%
<b>Total</b>		<b>7,551</b>	<b>0.51%</b>

Source: Recompiled from MIC, *2006 Establishment and Enterprise Census of Japan*.

- Notes:
1. Business establishments of sole proprietors are not included.
  2. Industries are classified according to the revised industrial classification of March 2002.
  3. "FDI enterprises" are here defined as enterprises with overseas subsidiaries or affiliates.
  4. "Subsidiaries" are here defined as companies in which the company concerned owns more than 50% of the voting rights. This includes companies that own more than 50% of the voting rights aggregating the rights owned by subsidiaries of the company or the company and its subsidiaries, and companies included in consolidated financial reports even where the proportion of voting rights owned does not exceed 50%.
  5. "Affiliates" are here defined as companies in which the company concerned directly owns at least 20% and not more than 50% of the voting rights.

### Appended note 3-2-7 Proportion of Japanese manufacturers with non-manufacturing subsidiaries overseas

Rising proportions of manufacturers of all sizes have overseas subsidiaries whose core business is in an industry other than manufacturing.



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.

### Appended note 3-2-8 Numbers and proportions of FDI enterprises by prefecture (SMEs)

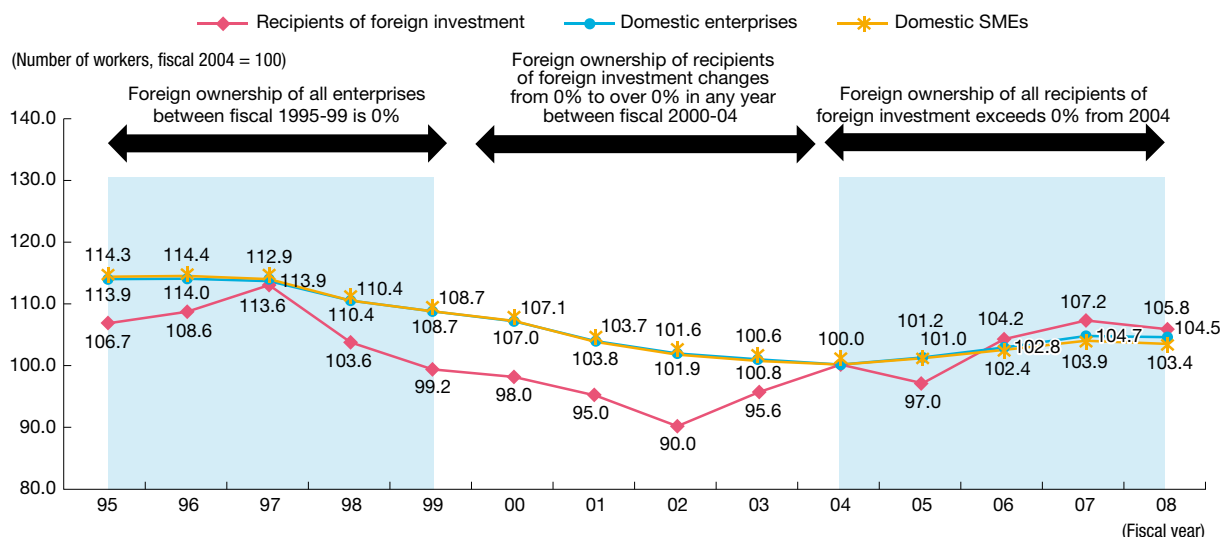
Prefecture of head office	Number of FDI enterprises	Proportion of FDI enterprises	Prefecture of head office	Number of FDI enterprises	Proportion of FDI enterprises
Hokkaido	75	0.11%	Shiga	53	0.47%
Aomori	12	0.09%	Kyoto	153	0.56%
Iwate	18	0.14%	Osaka	1,041	0.96%
Miyagi	35	0.14%	Hyogo	285	0.57%
Akita	17	0.15%	Nara	50	0.61%
Yamagata	38	0.27%	Wakayama	31	0.36%
Fukushima	40	0.16%	Tottori	16	0.25%
Ibaraki	66	0.23%	Shimane	9	0.10%
Tochigi	61	0.23%	Okayama	96	0.43%
Gunma	71	0.26%	Hiroshima	138	0.37%
Saitama	251	0.36%	Yamaguchi	30	0.20%
Chiba	103	0.21%	Tokushima	15	0.15%
Tokyo	2,390	0.95%	Kagawa	44	0.31%
Kanagawa	641	0.75%	Ehime	87	0.53%
Niigata	69	0.22%	Kochi	16	0.21%
Toyama	54	0.41%	Fukuoka	138	0.28%
Ishikawa	42	0.27%	Saga	12	0.16%
Fukui	58	0.48%	Nagasaki	14	0.10%
Yamanashi	34	0.33%	Kumamoto	29	0.15%
Nagano	142	0.47%	Oita	14	0.10%
Gifu	156	0.60%	Miyazaki	12	0.10%
Shizuoka	225	0.48%	Kagoshima	13	0.07%
Aichi	545	0.60%	Okinawa	27	0.25%
Mie	85	0.49%	<b>Total</b>	<b>7,551</b>	<b>0.51%</b>

Source: Recompiled from MIC, *2006 Establishment and Enterprise Census of Japan*.

- Notes:
1. Business establishments of sole proprietors are not included.
  2. Industries are classified according to the revised industrial classification of March 2002.
  3. "FDI enterprises" are here defined as enterprises with overseas subsidiaries or affiliates.
  4. Subsidiaries are here defined as companies in which the company concerned owns more than 50% of the voting rights. This includes companies that own more than 50% of the voting rights aggregating the rights owned by subsidiaries of the company or the company and its subsidiaries, and companies included in consolidated financial reports even where the proportion of voting rights owned does not exceed 50%.
  5. "Affiliates" are here defined as companies in which the company concerned directly owns at least 20% and not more than 50% of the voting rights.

### Appended note 3-2-9 Numbers of workers at recipients of foreign investment, domestic enterprises, and domestic SMEs

Trends in numbers of workers at recipients of foreign investment, domestic enterprises, and domestic SMEs are almost the same.



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.

- Notes:
1. "Recipients of foreign investment" are here defined as enterprises whose foreign ownership exceeded 0% in any year between fiscal 2000 and fiscal 2004 and thereafter remained in excess of 0%.
  2. It is possible that recipients of foreign investment may, while being SMEs when their foreign ownership exceeded 0%, have changed in size or industry following their receipt of investment.
  3. "Domestic enterprises" are here defined as enterprises whose foreign ownership was 0% throughout the period from fiscal 1995 to fiscal 2008.
  4. "Domestic SMEs" are here defined as SMEs whose foreign ownership was 0% throughout the period from fiscal 1995 to fiscal 2008.
  5. Only enterprises that responded continuously from fiscal 1995 through fiscal 2008 are included.

### Appended note 4 Summary of survey

Survey name	Industries surveyed	Sample size	Sample source	Response rate
Survey of the Management Environment	Enterprises belonging to the following industry divisions according to the Japan Standard Industrial Classification (MIC Notice No. 175, 2009), which comprise the statistical standards specified in Article 2, Paragraph 9 of the Statistics Act: D. Construction; E. Manufacturing; G. Information and communications; Transport within H.; I. Wholesale and retail trade; K. Real estate and goods rental and leasing; Professional and technical services within L.; M. Accommodations and eating and drinking services; N. Living-related and personal services and amusements service; O. Educational and learning support; P. Medical, health care, and welfare; R. Services (not otherwise classified).	30,675	Tokyo Shoko Research Ltd. database	20.2%



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# Supplementary statistical data

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**Table 1 Number of business establishments and enterprises by industry and size  
(private non-primary industry, 2009)**

(1) Business establishments

Industry	Small and medium business establishments				Large business establishments		Total		(Of which no. of establishments with only dispatched workers)
	No.	% of total	No.	% of total	No.	% of total	No.	% of total	
Mining and quarrying of stone and gravel	2,910	99.8	2,625	90.1	5	0.2	2,915	100.0	(19)
Construction	583,374	100.0	550,284	94.3	259	0.0	583,633	100.0	(346)
Manufacturing	533,130	99.3	452,989	84.4	3,562	0.7	536,692	100.0	(562)
Electricity, gas, heat supply and water	4,103	97.7	2,542	60.6	95	2.3	4,198	100.0	(103)
Information and communications	75,305	96.7	48,320	62.0	2,596	3.3	77,901	100.0	(354)
Transport and postal services	146,749	99.4	105,357	71.4	868	0.6	147,617	100.0	(821)
Wholesaling/retailing	1,533,323	98.6	1,041,378	66.9	22,384	1.4	1,555,707	100.0	(4,356)
Wholesale trade	399,073	99.2	229,984	57.2	3,286	0.8	402,359	100.0	(1,514)
Retail trade	1,134,250	98.3	811,394	70.4	19,098	1.7	1,153,348	100.0	(2,842)
Finance and insurance	94,160	99.6	75,723	80.1	363	0.4	94,523	100.0	(604)
Real estate and goods rental and leasing	407,542	99.9	386,415	94.8	281	0.1	407,823	100.0	(1,449)
Scientific research and professional and technical services	238,327	99.3	178,551	74.4	1,700	0.7	240,027	100.0	(464)
Accommodations and food services	770,669	99.0	522,754	67.2	7,602	1.0	778,271	100.0	(1,120)
Life-related, entertainment and recreation services	508,687	99.7	422,538	82.8	1,475	0.3	510,162	100.0	(1,234)
Education and learning support	166,367	98.9	119,317	70.9	1,870	1.1	168,237	100.0	(459)
Medical, healthcare and welfare	336,219	97.7	152,255	44.2	7,909	2.3	344,128	100.0	(386)
Compound services	35,807	99.0	18,460	51.0	358	1.0	36,165	100.0	(59)
Services (not otherwise classified)	359,711	98.0	253,189	69.0	7,417	2.0	367,128	100.0	(2,947)
Non-primary industry total	5,796,383	99.0	4,332,697	74.0	58,744	1.0	5,855,127	100.0	(15,283)

Source: Recompiled from MIC, 2009 Economic Census: Basic Survey.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. Business establishments with 300 or fewer workers (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places) are treated as small and medium business establishments as defined under the revised Small and Medium Enterprise Basic Law.
  3. Business establishments with 20 or fewer workers (5 or fewer in wholesaling, retailing, eating and drinking places, and services) are treated as small business establishments.
  4. The percentages of the total for small business establishments indicate their proportion of the total number of business establishments.
  5. Industries are classified according to the November 2007 revised system of industry classification.
  6. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census of Japan* published in the supplementary statistical data for past *White Papers on SMEs as the Economic Census: Basic Survey* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
  7. Each figure includes business establishments with only temporary staff (total number of workers = 0).

(2) Enterprises

Industry	SMEs				Large enterprises		Total	
	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	2,056	99.8	1,843	89.5	4	0.2	2,060	100.0
Construction	519,044	99.9	498,970	96.1	279	0.1	519,323	100.0
Manufacturing	446,054	99.5	394,011	87.9	2,033	0.5	448,087	100.0
Electricity, gas, heat supply and water	759	96.6	504	64.1	27	3.4	786	100.0
Information and communications	49,332	97.6	34,394	68.0	1,221	2.4	50,553	100.0
Transport and postal services	81,007	99.7	62,084	76.4	251	0.3	81,258	100.0
Wholesaling/retailing	1,043,440	99.6	867,378	82.8	4,218	0.4	1,047,658	100.0
Wholesale trade	241,048	99.3	175,051	72.1	1,689	0.7	242,737	100.0
Retail trade	802,392	99.7	692,327	86.0	2,529	0.3	804,921	100.0
Finance and insurance	34,507	99.3	33,405	96.1	257	0.7	34,764	100.0
Real estate and goods rental and leasing	351,973	99.9	344,629	97.8	304	0.1	352,277	100.0
Scientific research and professional and technical services	202,988	99.7	174,344	85.6	581	0.3	203,569	100.0
Accommodations and food services	602,099	99.8	524,215	86.9	935	0.2	603,034	100.0
Life-related, entertainment and recreation services	403,204	99.9	371,945	92.1	540	0.1	403,744	100.0
Education and learning support	110,018	99.9	99,453	90.3	124	0.1	110,142	100.0
Medical, healthcare and welfare	194,702	99.9	143,529	73.6	243	0.1	194,945	100.0
Compound services	3,617	99.9	3,604	99.6	2	0.1	3,619	100.0
Services (not otherwise classified)	145,919	99.4	104,983	71.5	892	0.6	146,811	100.0
Non-primary industry total	4,190,719	99.7	3,659,291	87.1	11,911	0.3	4,202,630	100.0

Source: Recompiled from MIC, 2009 Economic Census: Basic Survey.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. Number of enterprises = Number of companies + Business establishments of sole proprietors (independent establishments and head offices).
  3. Enterprises with 300 or fewer regular employees (100 or fewer in wholesaling and services, and 50 or fewer in retailing and eating and drinking places) or capital stock of ¥300 million or less (¥100 million or less in wholesaling, and ¥50 million or less in retailing, eating and drinking places, and services) are treated as SMEs as defined under the revised Small and Medium Enterprise Basic Law.
  4. Enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services) are treated as small enterprises.
  5. The percentages of the total for small business enterprises indicate their proportion of the total number of enterprises.
  6. Industries are classified according to the November 2007 revised system of industry classification.
  7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census of Japan* published in the supplementary statistical data for past *White Papers on SMEs as the Economic Census: Basic Survey* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.

## (3) Companies

Industry	SMEs				Large enterprises		Total	
	No.	% of total	Of which small enterprises No.	% of total	No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	1,794	99.8	1,582	88.0	4	0.2	1,798	100.0
Construction	330,865	99.9	310,900	93.9	279	0.1	331,144	100.0
Manufacturing	274,587	99.3	222,832	80.6	2,033	0.7	276,620	100.0
Electricity, gas, heat supply and water	759	96.6	504	64.1	27	3.4	786	100.0
Information and communications	46,576	97.4	31,676	66.3	1,221	2.6	47,797	100.0
Transport and postal services	56,077	99.6	37,179	66.0	251	0.4	56,328	100.0
Wholesaling/retailing	465,659	99.1	318,954	67.9	4,097	0.9	469,756	100.0
Wholesale trade	188,757	99.1	124,790	65.5	1,689	0.9	190,446	100.0
Retail trade	276,902	99.1	194,164	69.5	2,408	0.9	279,310	100.0
Finance and insurance	25,529	99.0	24,427	94.7	257	1.0	25,786	100.0
Real estate and goods rental and leasing	181,486	99.8	174,303	95.9	304	0.2	181,790	100.0
Scientific research and professional and technical services	94,349	99.4	73,887	77.8	567	0.6	94,916	100.0
Accommodations and food services	94,768	99.1	47,751	49.9	907	0.9	95,675	100.0
Life-related, entertainment and recreation services	62,187	99.1	36,251	57.8	539	0.9	62,726	100.0
Education and learning support	14,957	99.2	8,445	56.0	124	0.8	15,081	100.0
Medical, healthcare and welfare	24,253	99.5	10,012	41.1	130	0.5	24,383	100.0
Compound services	74	97.4	67	88.2	2	2.6	76	100.0
Services (not otherwise classified)	90,992	99.0	51,350	55.9	888	1.0	91,880	100.0
Non-primary industry total	1,764,912	99.3	1,350,120	76.0	11,630	0.7	1,776,542	100.0

Source: Recompiled from MIC, 2009 *Economic Census: Basic Survey*.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. Business establishments of sole proprietors are not included.
  3. Enterprises with 300 or fewer regular employees (100 or fewer in wholesaling and services, and 50 or fewer in retailing and eating and drinking places) or capital stock of ¥300 million or less (¥100 million or less in wholesaling, and ¥50 million or less in retailing, eating and drinking places, and services) are treated as SMEs as defined under the revised Small and Medium Enterprise Basic Law.
  4. Enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services) are treated as small enterprises.
  5. The percentages of the total for small business enterprises indicate their proportion of the total number of enterprises.
  6. Industries are classified according to the November 2007 revised system of industry classification.
  7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census of Japan* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census: Basic Survey* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.



**Table 2 Number of enterprises and number of regular employees/workers by prefecture (private, non-primary industry, 2009)**

(1) Number of enterprises

	SMEs				Large enterprises		Total	
	No.	% of total	Of which small enterprises		No.	% of total	No.	% of total
			No.	% of total				
Hokkaido	166,417	99.8	144,337	86.6	322	0.2	166,739	100.0
Aomori	47,768	99.9	42,330	88.5	63	0.1	47,831	100.0
Iwate	44,288	99.8	39,061	88.1	67	0.2	44,355	100.0
Miyagi	71,751	99.8	62,867	87.4	163	0.2	71,914	100.0
Akita	39,835	99.9	35,541	89.1	39	0.1	39,874	100.0
Yamagata	45,726	99.9	40,757	89.0	67	0.1	45,793	100.0
Fukushima	71,452	99.9	63,493	88.8	85	0.1	71,537	100.0
Ibaraki	92,610	99.9	82,245	88.7	84	0.1	92,694	100.0
Tochigi	70,553	99.9	62,920	89.1	102	0.1	70,655	100.0
Gunma	77,087	99.9	68,829	89.2	105	0.1	77,192	100.0
Saitama	186,313	99.9	165,845	88.9	269	0.1	186,582	100.0
Chiba	138,875	99.8	121,776	87.5	264	0.2	139,139	100.0
Tokyo	486,673	99.1	408,224	83.1	4,656	0.9	491,329	100.0
Kanagawa	215,892	99.7	187,340	86.5	597	0.3	216,489	100.0
Niigata	89,561	99.8	79,205	88.3	162	0.2	89,723	100.0
Toyama	41,223	99.8	36,093	87.4	96	0.2	41,319	100.0
Ishikawa	47,150	99.8	41,728	88.3	111	0.2	47,261	100.0
Fukui	34,081	99.9	30,337	88.9	45	0.1	34,126	100.0
Yamanashi	36,495	99.9	32,981	90.3	48	0.1	36,543	100.0
Nagano	85,586	99.8	76,913	89.7	161	0.2	85,747	100.0
Gifu	82,389	99.9	73,149	88.7	101	0.1	82,490	100.0
Shizuoka	139,809	99.8	123,589	88.3	234	0.2	140,043	100.0
Aichi	240,048	99.7	205,922	85.5	716	0.3	240,764	100.0
Mie	60,342	99.8	53,133	87.9	91	0.2	60,433	100.0
Shiga	39,012	99.8	34,133	87.3	70	0.2	39,082	100.0
Kyoto	94,752	99.8	83,523	88.0	187	0.2	94,939	100.0
Osaka	326,082	99.6	282,057	86.2	1,238	0.4	327,320	100.0
Hyogo	168,471	99.8	147,077	87.1	311	0.2	168,782	100.0
Nara	36,018	99.9	31,761	88.1	28	0.1	36,046	100.0
Wakayama	40,647	99.9	36,648	90.1	31	0.1	40,678	100.0
Tottori	18,839	99.8	16,518	87.5	32	0.2	18,871	100.0
Shimane	26,252	99.9	23,256	88.5	29	0.1	26,281	100.0
Okayama	59,997	99.8	52,267	87.0	108	0.2	60,105	100.0
Hiroshima	96,417	99.8	83,834	86.8	182	0.2	96,599	100.0
Yamaguchi	46,203	99.9	40,242	87.0	67	0.1	46,270	100.0
Tokushima	29,897	99.9	26,911	89.9	30	0.1	29,927	100.0
Kagawa	36,253	99.8	31,958	88.0	63	0.2	36,316	100.0
Ehime	50,848	99.8	45,051	88.4	90	0.2	50,938	100.0
Kochi	29,489	99.9	26,571	90.0	27	0.1	29,516	100.0
Fukuoka	154,238	99.8	132,414	85.6	383	0.2	154,621	100.0
Saga	27,854	99.9	24,287	87.1	38	0.1	27,892	100.0
Nagasaki	48,548	99.9	42,761	88.0	48	0.1	48,596	100.0
Kumamoto	57,226	99.9	49,968	87.2	82	0.1	57,308	100.0
Oita	40,286	99.9	35,140	87.1	50	0.1	40,336	100.0
Miyazaki	39,926	99.9	35,415	88.6	44	0.1	39,970	100.0
Kagoshima	57,962	99.9	51,645	89.0	59	0.1	58,021	100.0
Okinawa	53,578	99.9	47,239	88.1	66	0.1	53,644	100.0
Total	4,190,719	99.7	3,659,291	87.1	11,911	0.3	4,202,630	100.0

Source: Recompiled from MIC, 2009 *Economic Census: Basic Survey*.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. Number of enterprises = Number of companies + Business establishments of sole proprietors (independent establishments and head offices).
  3. Enterprises with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places) or capital stock of ¥300 million or less (¥100 million or less in wholesaling, ¥50 million or less in retailing, eating and drinking places, and services) are treated as SMEs as defined under the revised Small and Medium Enterprise Basic Law.
  4. Enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services) are treated as small enterprises.
  5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.
  6. Industries are classified according to the November 2007 revised system of industry classification.
  7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census of Japan* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census: Basic Survey* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.

## (2) Number of regular employees

	SMEs				Large enterprises		Total	
	No. of regular employees	% of total	Of which small enterprises		No. of regular employees	% of total	No. of regular employees	% of total
			No. of regular employees	% of total				
Hokkaido	959,270	81.5	251,809	21.4	218,022	18.5	1,177,292	100.0
Aomori	233,679	86.3	65,890	24.3	37,102	13.7	270,781	100.0
Iwate	226,895	85.6	62,737	23.7	38,043	14.4	264,938	100.0
Miyagi	395,670	80.1	104,743	21.2	98,326	19.9	493,996	100.0
Akita	190,796	90.2	55,817	26.4	20,648	9.8	211,444	100.0
Yamagata	221,896	81.7	62,319	22.9	49,863	18.3	271,759	100.0
Fukushima	365,099	82.5	106,833	24.1	77,290	17.5	442,389	100.0
Ibaraki	473,905	88.2	146,340	27.2	63,655	11.8	537,560	100.0
Tochigi	332,178	80.4	105,625	25.6	80,744	19.6	412,922	100.0
Gunma	376,922	74.6	112,131	22.2	128,632	25.4	505,554	100.0
Saitama	960,073	73.4	290,338	22.2	348,642	26.6	1,308,715	100.0
Chiba	714,114	68.5	210,652	20.2	327,978	31.5	1,042,092	100.0
Tokyo	4,076,597	35.1	731,004	6.3	7,543,505	64.9	11,620,102	100.0
Kanagawa	1,279,237	71.0	328,763	18.2	523,281	29.0	1,802,518	100.0
Niigata	485,771	82.5	137,654	23.4	103,181	17.5	588,952	100.0
Toyama	239,207	78.1	65,230	21.3	66,985	21.9	306,192	100.0
Ishikawa	248,793	82.4	71,106	23.6	53,116	17.6	301,909	100.0
Fukui	179,098	87.2	54,333	26.4	26,400	12.8	205,498	100.0
Yamanashi	155,004	87.0	50,819	28.5	23,171	13.0	178,175	100.0
Nagano	427,277	82.6	119,357	23.1	90,164	17.4	517,441	100.0
Gifu	428,402	82.8	126,769	24.5	89,061	17.2	517,463	100.0
Shizuoka	755,500	78.0	216,860	22.4	212,603	22.0	968,103	100.0
Aichi	1,641,414	63.7	387,728	15.1	933,644	36.3	2,575,058	100.0
Mie	318,509	84.1	90,941	24.0	60,416	15.9	378,925	100.0
Shiga	209,715	79.5	56,151	21.3	54,226	20.5	263,941	100.0
Kyoto	497,145	68.8	133,141	18.4	225,971	31.2	723,116	100.0
Osaka	2,160,163	59.2	505,438	13.9	1,485,881	40.8	3,646,044	100.0
Hyogo	945,525	78.4	244,646	20.3	259,949	21.6	1,205,474	100.0
Nara	170,988	92.1	51,162	27.5	14,752	7.9	185,740	100.0
Wakayama	158,814	83.4	53,435	28.1	31,615	16.6	190,429	100.0
Tottori	100,101	90.2	28,103	25.3	10,909	9.8	111,010	100.0
Shimane	128,361	89.4	39,720	27.7	15,267	10.6	143,628	100.0
Okayama	354,110	82.1	93,208	21.6	77,019	17.9	431,129	100.0
Hiroshima	594,819	71.6	149,209	18.0	236,117	28.4	830,936	100.0
Yamaguchi	257,641	82.2	69,415	22.2	55,668	17.8	313,309	100.0
Tokushima	125,434	87.6	40,071	28.0	17,718	12.4	143,152	100.0
Kagawa	198,902	77.1	52,883	20.5	59,127	22.9	258,029	100.0
Ehime	262,819	79.9	76,162	23.2	66,009	20.1	328,828	100.0
Kochi	121,614	89.9	37,806	27.9	13,683	10.1	135,297	100.0
Fukuoka	978,347	72.4	230,268	17.0	372,285	27.6	1,350,632	100.0
Saga	141,961	88.1	41,795	25.9	19,187	11.9	161,148	100.0
Nagasaki	232,154	90.4	69,629	27.1	24,608	9.6	256,762	100.0
Kumamoto	284,647	87.3	84,397	25.9	41,288	12.7	325,935	100.0
Oita	209,275	81.3	58,971	22.9	48,276	18.7	257,551	100.0
Miyazaki	182,361	89.6	55,967	27.5	21,080	10.4	203,441	100.0
Kagoshima	268,122	85.4	80,461	25.6	45,784	14.6	313,906	100.0
Okinawa	236,829	85.5	66,772	24.1	40,286	14.5	277,115	100.0
Total	24,505,153	62.9	6,274,608	16.1	14,451,177	37.1	38,956,330	100.0

Source: Recompiled from MIC, 2009 *Economic Census: Basic Survey*.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. The figures shown indicate the total number of employees of companies and sole proprietors.
  3. Enterprises with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places) or with capital stock of ¥300 million or less (¥100 million in wholesaling, ¥50 million or less in retailing, eating and drinking places, and services) are treated as SMEs as defined under the revised Small and Medium Enterprise Basic Law.
  4. Enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing and services) are treated as small enterprises.
  5. The percentages of the total small enterprises indicate their proportion of all regular employees.
  6. Industries are classified according to the November 2007 revised system of industry classification.
  7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census of Japan* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census: Basic Survey* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.

## (3) Number of regular employees and workers

	SMEs				Large enterprises		Total	
	No. of regular company employees + total no. of workers of sole proprietors	% of total	Of which small enterprises		No. of regular company employees + total no. of workers of sole proprietors	% of total	No. of regular company employees + total no. of workers of sole proprietors	% of total
			No. of regular company employees + total no. of workers of sole proprietors	% of total				
Hokkaido	1,088,719	83.3	353,354	27.0	218,399	16.7	1,307,118	100.0
Aomori	283,619	88.4	105,843	33.0	37,208	11.6	320,827	100.0
Iwate	272,911	87.8	100,018	32.2	38,098	12.2	311,009	100.0
Miyagi	463,131	82.5	156,797	27.9	98,452	17.5	561,583	100.0
Akita	232,213	91.7	89,785	35.5	20,955	8.3	253,168	100.0
Yamagata	268,473	84.3	100,151	31.5	49,863	15.7	318,336	100.0
Fukushima	430,989	84.8	159,854	31.4	77,353	15.2	508,342	100.0
Ibaraki	563,907	89.8	215,005	34.2	64,229	10.2	628,136	100.0
Tochigi	392,929	83.0	154,372	32.6	80,745	17.0	473,674	100.0
Gunma	445,396	77.6	167,509	29.2	128,818	22.4	574,214	100.0
Saitama	1,113,066	76.1	406,195	27.8	349,182	23.9	1,462,248	100.0
Chiba	829,061	71.6	295,039	25.5	328,625	28.4	1,157,686	100.0
Tokyo	4,408,672	36.9	967,170	8.1	7,544,422	63.1	11,953,094	100.0
Kanagawa	1,434,927	73.3	438,175	22.4	523,502	26.7	1,958,429	100.0
Niigata	569,975	84.7	206,526	30.7	103,235	15.3	673,210	100.0
Toyama	279,230	80.6	95,879	27.7	67,048	19.4	346,278	100.0
Ishikawa	293,496	84.6	105,916	30.5	53,254	15.4	346,750	100.0
Fukui	212,691	89.0	80,216	33.6	26,402	11.0	239,093	100.0
Yamanashi	193,394	89.3	80,441	37.1	23,171	10.7	216,565	100.0
Nagano	505,081	84.8	182,579	30.7	90,524	15.2	595,605	100.0
Gifu	508,351	85.1	188,614	31.6	89,250	14.9	597,601	100.0
Shizuoka	879,135	80.5	312,750	28.6	212,757	19.5	1,091,892	100.0
Aichi	1,845,020	66.4	531,986	19.1	934,553	33.6	2,779,573	100.0
Mie	380,487	86.3	137,286	31.1	60,530	13.7	441,017	100.0
Shiga	252,682	82.3	86,540	28.2	54,383	17.7	307,065	100.0
Kyoto	597,565	72.5	205,828	25.0	226,275	27.5	823,840	100.0
Osaka	2,461,849	62.3	723,228	18.3	1,487,359	37.7	3,949,208	100.0
Hyogo	1,117,074	81.1	366,397	26.6	260,836	18.9	1,377,910	100.0
Nara	215,982	93.4	83,176	36.0	15,180	6.6	231,162	100.0
Wakayama	207,710	86.7	91,315	38.1	31,736	13.3	239,446	100.0
Tottori	117,125	91.5	41,449	32.4	10,910	8.5	128,035	100.0
Shimane	153,885	90.9	60,171	35.6	15,340	9.1	169,225	100.0
Okayama	404,466	84.0	131,500	27.3	77,102	16.0	481,568	100.0
Hiroshima	673,370	74.0	208,929	23.0	236,144	26.0	909,514	100.0
Yamaguchi	301,221	84.4	102,481	28.7	55,868	15.6	357,089	100.0
Tokushima	154,663	89.7	63,908	37.1	17,719	10.3	172,382	100.0
Kagawa	228,969	79.4	77,116	26.8	59,263	20.6	288,232	100.0
Ehime	311,517	82.5	114,666	30.4	66,172	17.5	377,689	100.0
Kochi	153,905	91.8	63,494	37.9	13,685	8.2	167,590	100.0
Fukuoka	1,132,571	75.2	338,670	22.5	372,794	24.8	1,505,365	100.0
Saga	172,609	90.0	64,531	33.6	19,203	10.0	191,812	100.0
Nagasaki	284,383	92.0	109,185	35.3	24,613	8.0	308,996	100.0
Kumamoto	338,435	89.1	125,263	33.0	41,350	10.9	379,785	100.0
Oita	247,171	83.6	88,249	29.9	48,329	16.4	295,500	100.0
Miyazaki	223,270	91.4	87,609	35.9	21,084	8.6	244,354	100.0
Kagoshima	325,797	87.7	125,836	33.9	45,786	12.3	371,583	100.0
Okinawa	299,362	88.1	111,408	32.8	40,287	11.9	339,649	100.0
Total	28,270,454	66.2	9,102,409	21.3	14,461,993	33.8	42,732,447	100.0

Source: Recompiled from MIC, 2009 *Economic Census: Basic Survey*.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. The figures shown indicate the combined sum of regular employees of companies and the total number of workers of sole proprietors.
  3. Companies with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places) or with capital stock of ¥300 million or less (¥100 million in wholesaling, ¥50 million or less in retailing, eating and drinking places, and services) and sole proprietors with 300 or fewer workers (100 or fewer in wholesaling and services, 50 or fewer in retailing) are treated as SMEs.
  4. Companies with 20 or fewer regular employees (5 or fewer in wholesaling, retailing and services) and sole proprietors with 20 or fewer workers (5 or fewer in wholesaling, retailing and services) are treated as small enterprises.
  5. The percentages of the total small enterprises indicate their proportion of regular employees of companies and workers of sole proprietors.
  6. Industries are classified according to the November 2007 revised system of industry classification.
  7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census of Japan* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census: Basic Survey* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.

**Table 3 Number of workers by industry and size (private, non-primary industry, 2009)**

(1) Business establishments

Industry	Size Item	Small and medium business establishments				Large business establishments		Total	
		No. of workers	% of total	Of which small business establishments		No. of workers	% of total	No. of workers	% of total
				No. of workers	% of total				
Mining and quarrying of stone and gravel		28,486	92.8	17,391	56.7	2,198	7.2	30,684	100.0
Construction		4,144,921	95.9	2,767,871	64.1	175,650	4.1	4,320,571	100.0
Manufacturing		7,109,213	72.2	2,443,980	24.8	2,740,119	27.8	9,849,332	100.0
Electricity, gas, heat supply and water		145,800	69.3	18,166	8.6	64,691	30.7	210,491	100.0
Information and communications		879,422	51.0	177,595	10.3	846,191	49.0	1,725,613	100.0
Transport and postal services		3,071,953	86.0	706,163	19.8	500,120	14.0	3,572,073	100.0
Wholesaling/retailing		9,702,879	76.4	2,650,904	20.9	3,004,736	23.6	12,707,615	100.0
Wholesale trade		3,340,972	81.0	642,788	15.6	784,092	19.0	4,125,064	100.0
Retail trade		6,361,907	74.1	2,008,116	23.4	2,220,644	25.9	8,582,551	100.0
Finance and insurance		1,321,621	81.2	509,009	31.3	306,989	18.8	1,628,610	100.0
Real estate and goods rental and leasing		1,449,759	93.7	983,581	63.6	97,193	6.3	1,546,952	100.0
Scientific research and professional and technical services		1,311,202	73.6	435,355	24.4	471,073	26.4	1,782,275	100.0
Accommodations and food services		4,876,329	85.4	1,280,167	22.4	836,301	14.6	5,712,630	100.0
Life-related, entertainment and recreation services		2,413,420	88.8	887,242	32.6	305,108	11.2	2,718,528	100.0
Education and learning support		1,092,668	63.3	223,575	12.9	634,868	36.7	1,727,536	100.0
Medical, healthcare and welfare		3,745,523	66.5	418,869	7.4	1,888,971	33.5	5,634,494	100.0
Compound services		310,997	82.7	60,999	16.2	65,253	17.3	376,250	100.0
Services (not otherwise classified)		2,651,266	57.7	577,766	12.6	1,940,369	42.3	4,591,635	100.0
Non-primary industry total		44,255,459	76.1	14,158,633	24.4	13,879,830	23.9	58,135,289	100.0

Source: Recompiled from MIC, 2009 *Economic Census: Basic Survey*.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. Business establishments with 300 or fewer workers (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places) are treated as small and medium business establishments as defined under the revised Small and Medium Enterprise Basic Law.
  3. Business establishments with 20 or fewer workers (5 or fewer in wholesaling, retailing, eating and drinking places, and services) are treated as small business establishments.
  4. The percentages of the total for small business establishments indicate their proportion of the total number of business establishments.
  5. Industries are classified according to the November 2007 revised system of industry classification.
  6. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census of Japan* published in the supplementary statistical data for past *White Papers on SMEs as the Economic Census: Basic Survey* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.

(2) Enterprises (number of regular employees of companies and sole proprietors)

Industry	Size Item	SMEs				Large enterprises		Total	
		No. of regular employees	% of total	Of which small enterprises		No. of regular employees	% of total	No. of regular employees	% of total
				No. of regular employees	% of total				
Mining and quarrying of stone and gravel		19,427	81.2	9,578	40.0	4,490	18.8	23,917	100.0
Construction		2,641,552	86.0	1,576,077	51.3	428,531	14.0	3,070,083	100.0
Manufacturing		5,490,095	59.3	1,386,696	15.0	3,769,810	40.7	9,259,905	100.0
Electricity, gas, heat supply and water		31,476	15.8	3,244	1.6	167,599	84.2	199,075	100.0
Information and communications		652,797	45.8	71,911	5.0	771,399	54.2	1,424,196	100.0
Transport and postal services		1,967,975	64.9	283,920	9.4	1,062,425	35.1	3,030,400	100.0
Wholesaling/retailing		5,395,002	60.5	989,981	11.1	3,515,131	39.5	8,910,133	100.0
Wholesale trade		2,091,803	70.4	280,570	9.4	878,401	29.6	2,970,204	100.0
Retail trade		3,303,199	55.6	709,411	11.9	2,636,730	44.4	5,939,929	100.0
Finance and insurance		158,069	13.6	64,581	5.6	1,005,072	86.4	1,163,141	100.0
Real estate and goods rental and leasing		642,508	75.6	294,373	34.6	207,741	24.4	850,249	100.0
Scientific research and professional and technical services		748,668	70.7	233,923	22.1	310,913	29.3	1,059,581	100.0
Accommodations and food services		2,273,057	63.0	595,259	16.5	1,332,504	37.0	3,605,561	100.0
Life-related, entertainment and recreation services		1,252,775	75.9	288,776	17.5	398,865	24.1	1,651,640	100.0
Education and learning support		329,593	76.2	64,655	14.9	102,970	23.8	432,563	100.0
Medical, healthcare and welfare		979,990	89.7	261,594	23.9	112,732	10.3	1,092,722	100.0
Compound services		3,342	2.0	3,219	2.0	160,187	98.0	163,529	100.0
Services (not otherwise classified)		1,918,827	63.5	146,821	4.9	1,100,808	36.5	3,019,635	100.0
Non-primary industry total		24,505,153	62.9	6,274,608	16.1	14,451,177	37.1	38,956,330	100.0

Source: Recompiled from MIC, 2009 *Economic Census: Basic Survey*.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. The figures shown indicate the total number of employees of companies and sole proprietors.
  3. Enterprises with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places) or with capital stock of ¥300 million or less (¥100 million in wholesaling, ¥50 million or less in retailing, eating and drinking places, and services) are treated as SMEs as defined under the revised Small and Medium Enterprise Basic Law.
  4. Enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services) are treated as small enterprises.
  5. The percentages of the total small enterprises indicate their proportion of regular employees.
  6. Industries are classified according to the November 2007 revised system of industry classification.
  7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census of Japan* published in the supplementary statistical data for past *White Papers on SMEs as the Economic Census: Basic Survey* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.

## (3) Enterprises (number of regular employees of companies and total number of workers of sole proprietors)

Industry	Size Item	SMEs				Large enterprises		Total	
		No. of regular company employees + total no. of workers of sole proprietors		Of which small enterprises		No. of regular company employees + total no. of workers of sole proprietors		No. of regular company employees + total no. of workers of sole proprietors	
		% of total	% of total	% of total	% of total	% of total	% of total	% of total	
Mining and quarrying of stone and gravel		19,865	81.6	10,025	41.2	4,490	18.4	24,355	100.0
Construction		2,931,674	87.2	1,860,321	55.4	428,834	12.8	3,360,508	100.0
Manufacturing		5,762,270	60.5	1,651,249	17.3	3,769,810	39.5	9,532,080	100.0
Electricity, gas, heat supply and water		31,476	15.8	3,244	1.6	167,599	84.2	199,075	100.0
Information and communications		657,205	46.0	75,582	5.3	771,399	54.0	1,428,604	100.0
Transport and postal services		2,001,170	65.3	316,435	10.3	1,062,425	34.7	3,063,595	100.0
Wholesaling/retailing		6,356,795	64.4	1,721,245	17.4	3,520,708	35.6	9,877,503	100.0
Wholesale trade		2,178,469	71.3	342,662	11.2	878,617	28.7	3,057,086	100.0
Retail trade		4,178,326	61.3	1,378,583	20.2	2,642,091	38.7	6,820,417	100.0
Finance and insurance		169,942	14.5	76,454	6.5	1,005,072	85.5	1,175,014	100.0
Real estate and goods rental and leasing		867,339	80.7	516,061	48.0	207,843	19.3	1,075,182	100.0
Scientific research and professional and technical services		890,341	74.1	331,384	27.6	311,089	25.9	1,201,430	100.0
Accommodations and food services		3,155,625	70.3	1,144,169	25.5	1,333,928	29.7	4,489,553	100.0
Life-related, entertainment and recreation services		1,709,230	81.1	688,172	32.6	398,864	18.9	2,108,094	100.0
Education and learning support		472,937	82.1	165,593	28.8	102,970	17.9	575,907	100.0
Medical, healthcare and welfare		1,233,597	91.5	321,059	23.8	115,164	8.5	1,348,761	100.0
Compound services		8,942	5.3	8,606	5.1	160,187	94.7	169,129	100.0
Services (not otherwise classified)		2,002,046	64.5	212,810	6.9	1,101,611	35.5	3,103,657	100.0
Non-primary industry total		28,270,454	66.2	9,102,409	21.3	14,461,993	33.8	42,732,447	100.0

Source: Recompiled from MIC, 2009 *Economic Census: Basic Survey*.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. The figures shown indicate the total number of employees of companies and sole proprietors.
  3. Companies with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places) or with capital stock of ¥300 million or less (¥100 million or less in wholesaling, ¥50 million or less in retailing, eating and drinking places, and services) and sole proprietors with 300 or fewer workers (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places) are treated as SMEs.
  4. Companies with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services) and sole proprietors with 20 or fewer workers (5 or fewer in wholesaling, retailing, eating and drinking places, and services) are treated as small enterprises.
  5. The percentages of the total small enterprises indicate their proportion of regular employees of companies and workers of sole proprietors.
  6. Industries are classified according to the November 2007 revised system of industry classification.
  7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census of Japan* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census: Basic Survey* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.

## (4) Companies only (number of regular employees of companies)

Industry	Size Item	SMEs				Large enterprises		Total	
		No. of regular employees		Of which small enterprises		No. of regular employees		No. of regular employees	
		% of total	% of total	% of total	% of total	% of total	% of total	% of total	
Mining and quarrying of stone and gravel		18,950	80.8	9,140	39.0	4,490	19.2	23,440	100.0
Construction		2,437,077	85.0	1,374,828	48.0	428,531	15.0	2,865,608	100.0
Manufacturing		5,259,417	58.2	1,164,234	12.9	3,769,810	41.8	9,029,227	100.0
Electricity, gas, heat supply and water		31,476	15.8	3,244	1.6	167,599	84.2	199,075	100.0
Information and communications		650,221	45.7	69,804	4.9	771,399	54.3	1,421,620	100.0
Transport and postal services		1,956,853	64.8	273,597	9.1	1,062,425	35.2	3,019,278	100.0
Wholesaling/retailing		4,598,330	56.8	578,808	7.1	3,504,413	43.2	8,102,743	100.0
Wholesale trade		2,020,826	69.7	229,810	7.9	878,401	30.3	2,899,227	100.0
Retail trade		2,577,504	49.5	348,998	6.7	2,626,012	50.5	5,203,516	100.0
Finance and insurance		152,162	13.1	58,674	5.1	1,005,072	86.9	1,157,234	100.0
Real estate and goods rental and leasing		599,250	74.3	252,603	31.3	207,741	25.7	806,991	100.0
Scientific research and professional and technical services		548,097	64.1	109,435	12.8	307,397	35.9	855,494	100.0
Accommodations and food services		1,518,264	53.3	108,234	3.8	1,330,744	46.7	2,849,008	100.0
Life-related, entertainment and recreation services		990,791	71.3	79,674	5.7	398,659	28.7	1,389,450	100.0
Education and learning support		236,973	69.7	13,630	4.0	102,970	30.3	339,943	100.0
Medical, healthcare and welfare		391,045	80.8	21,258	4.4	92,725	19.2	483,770	100.0
Compound services		156	0.1	72	0.0	160,187	99.9	160,343	100.0
Services (not otherwise classified)		1,859,622	62.8	101,374	3.4	1,100,251	37.2	2,959,873	100.0
Non-primary industry total		21,248,684	59.6	4,218,609	11.8	14,414,413	40.4	35,663,097	100.0

Source: Recompiled from MIC, 2009 *Economic Census: Basic Survey*.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. Business establishments of sole proprietors are not included.
  3. Companies with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places) or with capital stock of ¥300 million or less (¥100 million or less in wholesaling, ¥50 million or less in retailing, eating and drinking places, and services) are treated as SMEs as defined under the revised Small and Medium Enterprise Basic Law.
  4. Companies with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services) are treated as small enterprises.
  5. The percentages of the total for small enterprises indicate their proportion of all regular employees.
  6. Industries are classified according to the November 2007 revised system of industry classification.
  7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census of Japan* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census: Basic Survey* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.

**Table 4 Trends in entry and exit rates (non-primary industries)**

## 1) Enterprises (sole proprietorships + corporate enterprises)

Year	Survey interval (months)	No. of enterprises at start of period	No. of entries	Entry survey period (months)	Increase in no. of enterprises	Annual average increase in no. of enterprises	Annual average no. of entries	Annual average no. of exits	Entry rate (%)	Exit rate (%)
75~78	37	4,682,092	681,775	29.5	355,485	115,292	277,332	162,040	5.9	3.5
78~81	36.5	5,037,577	739,996	30	318,925	104,852	295,998	191,146	5.9	3.8
81~86	60	5,356,502	1,039,351	54	72,096	14,419	230,967	216,548	4.3	4.0
86~91	60	5,428,598	853,991	54	-126,240	-25,248	189,776	215,024	3.5	4.0
91~96	63	5,302,358	967,779	81	-147,968	-28,184	143,375	171,559	2.7	3.2
96~99	33	5,154,390	507,531	33	-253,477	-92,173	184,557	288,147	3.6	5.6
99~01	27	4,900,913	638,289	27	-160,984	-71,548	283,684	334,755	5.8	6.8
As of 2001 (1993 classification)		4,739,929								
01~04	32	4,739,635	447,148	32	-360,347	-135,130	167,681	289,731	3.5	6.1
04~06	28	4,379,288	518,671	28	-138,962	-59,555	222,288	273,282	5.1	6.2
As of 2006		4,240,326								

## 2) Corporate enterprises (independent establishments and head offices, not including branches)

Year	Survey interval (months)	No. of corporate enterprises at start of period	No. of entries	Entry survey period (months)	Increase in no. of corporate enterprises	Annual average increase in no. of corporate enterprises	Annual average no. of entries	Annual average no. of exits	Entry rate (%)	Exit rate (%)
75~78	37	921,768	113,039	29.5	118,905	38,564	45,982	7,418	5.0	0.8
78~81	36.5	1,040,673	139,678	30	138,146	45,418	55,871	10,453	5.4	1.0
81~86	60	1,178,819	234,223	54	143,689	28,738	52,050	23,312	4.4	2.0
86~91	60	1,322,508	266,717	54	230,506	46,101	59,270	13,169	4.5	1.0
91~96	63	1,553,014	310,761	81	112,167	21,365	46,039	24,674	3.0	1.6
96~99	33	1,665,181	174,728	33	-6,801	-2,473	63,537	87,773	3.8	5.3
99~01	27	1,658,380	226,701	27	-50,570	-22,476	100,756	105,414	6.1	6.4
As of 2001 (1993 classification)		1,607,810								
01~04	32	1,607,648	155,161	32	-87,661	-32,873	58,185	88,739	3.6	5.5
04~06	28	1,519,987	197,819	28	-14,768	-6,329	84,780	83,972	5.6	5.5
As of 2006		1,505,219								

## 3) Sole proprietorships (independent establishments, head offices and branches)

Year	Survey interval (months)	No. of sole proprietorships at start of period	No. of entries	Entry survey period (months)	Increase in no. of sole proprietorships	Annual average increase in no. of sole proprietorships	Annual average no. of entries	Annual average no. of exits	Entry rate (%)	Exit rate (%)
75~78	37	3,760,324	568,736	29.5	236,580	76,729	231,350	154,622	6.2	4.1
78~81	36.5	3,996,904	600,318	30	180,779	59,434	240,127	180,693	6.0	4.5
81~86	60	4,177,683	805,128	54	-71,593	-14,319	178,917	193,236	4.3	4.6
86~91	60	4,106,090	587,274	54	-356,746	-71,349	130,505	201,855	3.2	4.9
91~96	63	3,749,344	657,018	81	-260,135	-49,550	97,336	146,886	2.6	3.9
96~99	33	3,489,209	332,803	33	-246,676	-89,700	121,019	200,374	3.5	5.7
99~01	27	3,242,533	411,588	27	-110,414	-49,073	182,928	229,341	5.6	7.1
As of 2001 (1993 classification)		3,132,119								
01~04	32	3,131,987	291,987	32	-272,686	-102,257	109,495	200,991	3.5	6.4
04~06	28	2,859,301	320,852	28	-124,194	-53,226	137,508	189,310	4.8	6.6
As of 2006		2,735,107								

## 4) Business establishments

Year	Survey interval (months)	No. of business establishments at start of period	No. of entries	Entry survey period (months)	Increase in no. of business establishments	Annual average increase in no. of business establishments	Annual average no. of entries	Annual average no. of exits	Entry rate (%)	Exit rate (%)
66-69	36	4,230,738	964,474	42	419,757	139,919	275,564	135,645	6.5	3.2
69-72	38	4,650,495	863,915	32	463,228	146,283	323,968	177,686	7.0	3.8
72-75	32.5	5,113,723	744,865	28.5	275,577	101,752	313,627	211,876	6.1	4.1
75-78	37	5,389,300	818,730	29.5	460,021	149,196	333,043	183,847	6.2	3.4
78-81	36.5	5,849,321	896,325	30	419,750	138,000	358,530	220,530	6.1	3.8
81-86	60	6,269,071	1,324,318	54	225,270	45,054	294,293	249,239	4.7	4.0
86-89	36	6,494,341	826,723	36	127,905	42,635	275,574	232,939	4.2	3.6
89-91	24	6,622,246	406,977	18	-80,505	-40,253	271,318	311,571	4.1	4.7
91-94	33.7	6,541,741	846,139	33.7	-9,761	-3,476	301,296	305,774	4.6	4.7
94-96	29.3	6,531,980	418,613	21	-29,056	-11,900	239,207	251,107	3.7	3.8
96-99	33	6,502,924	740,389	33	-318,095	-115,671	269,232	384,884	4.1	5.9
99-01	27	6,184,829	937,122	27	-65,768	-29,230	416,499	445,636	6.7	7.2
As of 2001 (1993 classification)		6,119,061								
01-04	32	6,118,721	691,029	32	-408,747	-153,280	259,136	392,019	4.2	6.4
04-06	28	5,709,974	846,368	28	-7,193	-3,083	362,729	369,309	6.4	6.5
As of 2006		5,702,781								

Source: MIC, *Establishment and Enterprise Census of Japan*.

- Notes:
- The annual average number of exits in 1986-89 (business establishments only), 1991-94 (business establishments only), 1996-99, 1999-2001, 2001-04 and 2004-06 are calculated based on the published figures for exits of business establishments. However, the numbers of entries (exits) of corporate enterprises in 1996-99, 1999-2001, 2001-04 and 2004-06 are calculated by adding entries (exits) of independent establishments and head offices according to *Volume 1 Result of Establishments for Japan Table 7* of the 1999 survey, *Special Result concerning Changes and Conversions in Establishments for Japan (2) State of Changes in 1999-2001 Table 8* of the 2001 survey, *Volume 1 Result of Establishments for Japan Table 10* of the 2004 survey and *Result of Establishment for Japan Table 46* of the 2006 survey.
  - The number of entries in 1994-1996 is the number of business establishments established in and after 1995.
  - This survey was conducted as the *Establishment Census until 1991*, *Establishment Directory Maintenance* in 1989, and the *Establishment Directory Maintenance Survey* in 1994.
  - The classification of industries as of 2004 and as of 2006 is according to MIC, *Japan Standard Industrial Classification* (revised March 2002).
  - As the revision of the *Japan Standard Industrial Classification* in March 2002 resulted in the transfer of some industry groups between primary and non-primary industries, the annual average entry and exit rates in 2001-04 were calculated based on the number of enterprises and business establishments at the beginning of the period under the new system of classification.
  - As the number of enterprises calculated based on the number of enterprises given in Supplementary statistical data Table 1(2) does not include the business establishments of sole proprietors classified as branches, the number does not match the number of enterprises at the start of the period shown in 1) above.

**Note: Method of calculation of entry and exit rates based on MIC's *Establishment and Enterprise Census of Japan*.**

## 1. Definitions

The entry rate indicates "(1) the average number of establishments (or enterprises) newly established" during a particular period as a proportion of "(2) the number of establishments (or enterprises) already in existence at the start of the period," and is calculated by dividing (1) by (2). The exit rate is calculated in a similar manner.

## 2. Example of calculation

The annual average number of entries and exits of establishments, which serves as the numerator in the above formula, is calculated differently according to the period for which the entry and exit rates are being calculated. This is because there are differences in how the results of the MIC's *Establishment and Enterprise Census of Japan* are tabulated depending on the year of the survey. Entry and exit rates were calculated according to (1) below for the periods 1986-1989, 1991-1994, 1996-1999, 1999-2001, 2001-2004, and 2004-2006 and according to (2) for other periods. If the periods are the same, the entry and exit rates based on both the number of establishments and number of enterprises can be calculated by the same method.

- (1) Example of calculation for 1986-1989, 1991-1994, 1996-1999, 1999-2001, 2001-2004, and 2004-2006 (2004-2006 based on number of establishments)

- MIC's *Establishment and Enterprise Census of Japan* at the end of the period classifies the number of establishments into continuing establishments, new establishments and closed establishments according to the state of changes. The number of new establishments (i.e. entries) and number of closed establishments are each divided by the 28-month period from June 1, 2004 (the date of the previous survey) until October 1, 2006, and then multiplied by 12 to calculate the annual average number of entries of establishments and annual average number of exits of establishments.

(annual average number of entries of establishments) =  $846,368 / 28 \times 12 \cong 362,729$

(annual average number of exits of establishments) =  $861,722 / 28 \times 12 \cong 369,309$

- 2) Entry rates and exit rates are calculated by respectively dividing the annual average number of entering establishments and the annual average number of exiting establishments obtained in 1) by the number of establishments at the beginning of the period (2004), and then multiplying the results by 100.
- (entry rate) =  $362,729 / 5,709,974 \times 100 \cong 6.4 (\%)$
- (exit rate) =  $369,309 / 5,709,974 \times 100 \cong 6.5 (\%)$
- (2) Example of calculation for periods other than 1986-1989, 1991-1994, 1996-1999, 1999-2001, 2001-2004, and 2004-2006

(1994-1996 based on number of establishments)

- 1) MIC's *Establishment and Enterprise Census of Japan* at the end of the period classifies the number of establishments according to timing of entry, and the number of entries of establishments from 1995 onward was 418,613. As the period of surveying of entries from January 1, 1995 to the end of the period on October 1, 1996 is 21 months, the number of entries of establishments is divided by 21 and multiplied by 12 to calculate the annual average number of entries of establishments. As this census does not report the number of exits of establishments, the annual average number of exits of establishments is calculated by subtracting the annual average increase in the number of establishments from the annual average number of entries of establishments. The annual average increase in the number of establishments is calculated by the number of establishments at the end of the period minus the number of establishments at the start of the period, divided by the 29.3 month period from April 20, 1994 (the date of the previous survey) until October 1, 1996, and then multiplied by 12.

(annual average number of entries of establishments) =  $418,613 / 21 \times 12 \cong 239,207$

(annual average increase in number of establishments) =  $(6,502,924 - 6,531,980) / 29.3 \times 12 \cong -11,990$

(annual average number of exits of establishments) =  $(239,207 - (-11,900)) = 251,107$

- 2) Entry rates and exit rates are calculated by respectively dividing the annual average number of entering establishments and the annual average number of exiting establishments obtained in 1) by the number of establishments (6,531,980) at the beginning of the period (1994), and then multiplying the results by 100.

(entry rate) =  $239,207 / 6,531,980 \times 100 \cong 3.7(\%)$

(exit rate) =  $251,107 / 6,531,980 \times 100 \cong 3.8(\%)$

### 3. Additional information

Another method of calculating the entry and exit rates in MIC's *Establishment and Enterprise Census of Japan* other than by using the above published data is to calculate the number of entries and exits by tracing them back using the data from individual questionnaires. Surveys since 1991 have assigned a code consisting of a municipality code, survey block number and establishment number, and this code can be used to concatenate establishments with the results of surveys in other years.

Example: Number of entries and exits of establishments in 1999-2001

Number of entries of establishments: Number of establishments not found to exist at the start of the period (1999) and whose existence could be confirmed at the end of the period (2001).

Number of exits of establishments: Number of establishments found to exist at the start of the period (1999) and whose existence could not be confirmed at the end of the period (2001).

However, as the data from individual questionnaires cannot be traced back to 1991 and earlier, the calculations in this publication are as a rule performed according to 2. above based on data published by MIC so as to ensure the continuity of data.

By way of exception, entry and exit rates by industry subcategory and municipality are calculated based on data from individual questionnaires due to the difficulty in practice of calculating the rates by timing of establishment using data published by MIC (which significantly reflect changes in industry, etc.).

\* Important points regarding MIC's *Establishment and Enterprises Census of Japan*

Establishments that migrated across the boundaries of survey blocks (about 248,000 as of March 2006 and each consisted of around 30 establishments) are counted as new establishments entries in their new locations, and closed establishments in their former locations.

As establishments from which questionnaires could not be collected for reasons such as temporary closure at the time of the survey are also counted as new establishments (entries) or closed establishments, it needs to be noted that both the number of new establishments and closed establishments may be larger than in reality.



## 1) Enterprises (sole proprietorships + corporate enterprises)

	Year	Survey interval (months)	No. of enterprises at start of period	No. of entering/exiting enterprises	Annual average no. of entering/exiting enterprises	Entry rate/exit rate (%)
Entries	06~09	30	4,713,193	240,477	96,191	2.0
Exits	06~09	33	4,240,326	723,051	262,928	6.2

## 2) Corporate enterprises (independent establishments and head offices, not including branches)

	Year	Survey interval (months)	No. of corporate enterprises at start of period	No. of entering/exiting corporate enterprises	Annual average no. of entering/exiting corporate enterprises	Entry rate/exit rate (%)
Entries	06~09	30	1,891,244	103,036	41,214	2.2
Exits	06~09	33	1,505,219	226,035	82,195	5.5

## 3) Sole proprietorships (independent establishments, head offices and branches)

	Year	Survey interval (months)	No. of sole proprietorships at start of period	No. of entering/exiting sole proprietorships	Annual average no. of entering/exiting sole proprietorships	Entry rate/exit rate (%)
Entries	06~09	30	2,821,949	137,441	54,976	1.9
Exits	06~09	33	2,735,107	497,016	180,733	6.6

## 4) Business establishments

	Year	Survey interval (months)	No. of business establishments at start of period	No. of entering/exiting business establishments	Annual average no. of entering/exiting business establishments	Entry rate/exit rate (%)
Entries	06~09	30	6,389,982	410,354	164,142	2.6
Exits	06~09	33	5,702,781	996,207	362,257	6.4

Source: Recompiled from MIC, *2009 Economic Census: Basic Survey*.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. Entry and exit rates for business establishments include openings and closures of branches and plants, and openings and closures due to moves.
  3. Due to differing definitions of entering enterprises (establishments), direct comparisons with past entry rates cannot be made.
  4. Due to the different definitions used for entering enterprises (establishments) and exiting enterprises (establishments), direct comparisons cannot be made between entry rates and exit rates.

**Note: Calculation of entry and exit rates from MIC, 2009 Economic Census: Basic Survey**

### 1. Definitions

The entry rate is defined as the proportion of “(1) the annual average number of new establishments (or enterprises)” to “(2) establishments (or enterprises) already in existence at the beginning of the period,” and is calculated by dividing (1) by (2). The exit rate is defined as the proportion of “(1) the annual average number of exiting establishments (or enterprises)” to “(2) establishments (or enterprises) already in existence at the beginning of the period,” and is calculated by dividing (1) by (2).

The *2009 Economic Census: Basic Survey* captures a greater range of business establishments and enterprises than the *Establishment and Enterprise Census of Japan* due to its use of commercial and corporate registers and other administrative records. Entry and exit rates for the period 2006-09 can therefore be calculated using either of the following as the number of establishments (enterprises) at the beginning of the period (2006): the number of establishments (enterprises) according to the *2006 Establishment and Enterprises Census of Japan* prior to the expansion of coverage, or the number of establishments (enterprises) in 2006 calculated from the *2009 Economic Census: Basic Survey*. As the analysis here uses data from after the expansion of coverage for entering establishments (enterprises) and data from before the expansion of coverage for exiting establishments (enterprises), the entry rate is calculated using the number of establishments (enterprises) after the expansion of coverage as the denominator, and the exit rate is calculated using the number of establishments (enterprises) before the expansion of coverage as the denominator.

### 2. Example calculations for establishments (rates for enterprises may be calculated by the same method)

- (1) The number of new establishments according to the *2009 Economic Census: Basic Survey* was 410,354. As this number is considered basically equivalent to establishments entering in or after 2007, it is divided by the number of months (30) between January 1, 2007, and the date of the survey on July 1, 2009, and then multiplied by 12 to obtain the annual average number of entering establishments.

- (annual average number of entering establishments) =  $410,354 / 30 \times 12 \cong 164,142$
- (2) The annual average number of entering establishments calculated in (1) is divided by the number of establishments at the beginning of the period (2006) and then multiplied by 100 to calculate the entry rate. The number of establishments at the beginning of the period used here is determined based on data after the expansion of coverage. It therefore equals the sum of the number of continuing establishments (5,393,775) and the number of exiting establishments (996,207) according to the *2009 Economic Census: Basic Survey*, which equals 6,389,982.  
(entry rate)  $164,142 / 6,389,982 \times 100 \cong 2.6$  (%)
- (3) The number of exiting establishments according to the *2009 Economic Census: Basic Survey* was 996,207. As exiting establishments are assumed to be equivalent to establishments that were surveyed for the *2006 Establishment and Enterprise Census of Japan* (conducted October 1, 2006) but not detected by the *2009 Economic Census: Basic Survey*, the annual average number of exiting establishments is calculated by dividing this number by the survey period (33 months) and multiplying the result by 12.  
(annual average number of exiting establishments) =  $996,207 / 33 \times 12 \cong 362,257$
- (4) The annual average number of exiting establishments calculated in (3) is divided by the number of establishments at the beginning of the period (2006) and then multiplied by 100 to calculate the exit rate. The number of establishments at the beginning of the period used here is determined based on data from before the expansion of coverage. It therefore equals the number of establishments according to the *2006 Establishment and Enterprise Census of Japan*, which is 5,702,781.  
(exit rate)  $362,257 / 5,702,781 \times 100 \cong 6.4$  (%)

\* Points to note regarding entry rates calculated based on MIC, *2009 Economic Census: Basic Survey*

Whereas the *Establishment and Enterprise Census of Japan* defined new establishments as establishments that were newly detected by census takers within their survey districts, the *2009 Economic Census: Basic Survey* defines them according to their date of establishment. Consequently, an establishment that relocated from another survey district was detected as a new establishment by the *Establishment and Enterprise Census of Japan*. With the *2009 Economic Census: Basic Survey*, on the other hand, if an establishment's date of startup rather than date of relocation has been entered in the census form, it is detected as a continuing establishment. As a result, entry rates calculated from the *2009 Economic Census: Basic Survey* may be underestimated in comparison with past estimates.

New discovered establishments too were detected by the *Establishment and Enterprise Census of Japan* as new establishments. The *2009 Economic Census: Basic Survey*, on the other hand, detects them as either new establishments or continuing establishments depending on when they were established, again resulting in underestimation of entry rates in comparison with in the past.

Due to these differences in the definitions of new establishments, entry rates calculated for 2006-09 based on the *2009 Economic Census: Basic Survey* are not directly comparable with past rates.

**Table 5 Trends in entry and exit rates by industry  
(based on number of business establishments, annual average)**

(Unit: %)

Year		66~69	69~72	72~75	75~78	78~81	81~86	86~89	89~91	91~94	94~96	96~99	99~01	01~04	04~06	06~09
Non-primary industry total	Entry Rate	6.5	7.0	6.1	6.2	6.1	4.7	4.2	4.1	4.6	3.7	4.1	6.7	4.2	6.4	2.6
	Exit Rate	3.2	3.8	4.1	3.4	3.8	4.0	3.6	4.7	4.7	3.8	5.9	7.2	6.4	6.5	6.4
Manufacturing	Entry Rate	6.0	5.6	4.3	3.4	3.7	3.1	3.1	2.8	3.1	1.5	1.9	3.9	2.2	3.4	1.2
	Exit Rate	2.5	3.2	3.4	2.3	2.5	3.1	2.9	4.0	4.5	4.0	5.3	6.6	5.7	5.4	5.8
Wholesaling	Entry Rate	6.5	8.1	8.0	6.8	6.4	5.1	4.8	3.2	5.0	3.3	4.9	6.6	3.9	5.6	2.1
	Exit Rate	6.5	3.8	5.3	3.7	3.8	3.7	4.1	3.2	5.0	5.3	7.4	7.5	7.0	6.4	6.6
Retailing	Entry Rate	5.0	4.9	4.3	4.8	4.4	3.4	3.1	2.8	3.9	3.6	4.3	6.1	3.9	5.7	2.4
	Exit Rate	2.1	3.3	3.6	3.2	4.0	4.0	3.4	6.4	4.3	4.6	6.8	7.2	6.7	6.8	7.1
Services	Entry Rate	6.3	6.7	6.1	6.1	6.4	5.3	4.9	4.7	5.0	3.8	4.2	7.3	4.4	6.4	2.4
	Exit Rate	3.8	4.0	3.8	3.3	3.1	3.2	3.6	2.9	4.2	2.8	4.8	6.3	5.5	5.9	5.4

Source: Recompiled from MIC, *Establishment and Enterprise Census of Japan* and *2009 Economic Census: Basic Survey*.

- Notes:
1. Data from the *Economic Census: Basis Survey* are provisional figures based on preliminary basic aggregates. These results may therefore differ from those obtained using subsequently confirmed detailed aggregates.
  2. Entry and exit rates for business establishments include openings and closures of branches and plants, and openings and closures due to moves.
  3. Rates were calculated based on the *Establishment and Enterprise Census of Japan* up to 2006, and the *Economic Census: Basic Survey* for the period 2006-09. (This survey was conducted as the *Establishment Census* until 1991, *Establishment Directory Maintenance* in 1989, and the *Establishment Directory Maintenance Survey* in 1994.)
  4. See Table 4 regarding the method of calculation of the entry and exit rates.
  5. Direct comparisons cannot be made between the figures for 2006-09 and past figures due to differing definitions of entering establishments. Direct comparisons between the entry rates and exit rates for 2006-09 are also not possible due to the different ways in which entering and exiting establishments are defined.
  6. The annual average entry and exit rates for 2001-04 and 2004-06 and 2006-09 were calculated based on the *Japan Standard Industrial Classification* (revised March 2002).
  7. "Services" in 2001-04, 2004-06 and 2006-09 consists of "services (not otherwise classified)."

**Table 6 Trends in entry and exit rates based on number of business establishments with employees**

(Unit: %)

Fiscal year	81	82	83	84	85	86	87	88	89	90
Entry rate	7.2	6.4	6.1	5.9	5.8	6.0	6.8	7.4	6.7	6.3
Exit rate	3.7	5.8	4.3	4.2	4.2	4.1	3.7	3.4	3.2	3.0
	91	92	93	94	95	96	97	98	99	00
	5.8	5.1	4.6	4.8	4.6	4.7	4.2	3.9	4.4	4.9
	3.3	3.3	3.4	3.4	3.6	2.5	2.8	3.1	4.0	4.0
	01	02	03	04	05	06	07	08	09	
	4.4	4.1	4.0	4.1	4.4	4.8	5.0	4.2	4.7	
	4.4	4.6	4.8	4.5	4.4	4.3	4.4	4.5	4.7	

Source: MHLW, *Annual Report on Employment Insurance Programs*.

- Notes:
1. Entry rate = Number of business establishments newly covered by employment insurance in fiscal year concerned / Number of business establishments covered by employment insurance at end of previous fiscal year × 100.
  2. Exit rate = Number of business establishments that cease to be covered by employment insurance in fiscal year concerned / Number of business establishments covered by employment insurance at end of previous fiscal year × 100.
  3. Business establishments covered by employment insurance are business establishments with established insurance status for labor insurance related to employment insurance (Article 5 of the Employment Insurance Law).

**Table 7 Trends in number of incorporation registrations and company entry and exit rates**

Year	55	56	57	58	59	60	61	62	63	64
No. of incorporation registrations	77,323	51,391	54,216	53,452	57,270	62,143	65,155	63,402	71,483	72,926
Company entry rate	19.6	12.5	12.4	12.2	12.0	12.4	12.1	11.0	11.5	11.1
Company exit rate	15.2	6.1	12.7	3.0	6.6	5.1	4.9	3.9	5.4	3.4

	65	66	67	68	69	70	71	72	73	74
	71,145	81,418	88,214	77,857	88,521	93,778	97,692	112,903	119,226	96,286
	10.1	10.9	11.1	9.3	9.9	10.0	10.0	10.7	10.6	8.0
	4.4	4.7	5.5	2.8	4.8	5.4	2.7	4.0	3.4	1.2

	75	76	77	78	79	80	81	82	83	84
	96,158	102,950	100,845	93,799	103,972	100,802	96,071	93,293	95,879	104,061
	7.5	7.7	7.2	6.3	6.8	6.3	5.9	5.5	5.5	5.8
	3.2	3.0	1.6	2.9	2.5	3.7	2.5	2.9	2.5	1.7

	85	86	87	88	89	90	91	92	93	94
	105,941	105,133	117,475	140,520	165,718	176,058	172,105	107,459	97,603	92,522
	5.7	5.5	6.0	7.0	8.0	8.1	7.6	4.5	3.9	3.6
	4.1	3.0	3.5	3.5	3.1	3.4	1.7	1.0	1.6	1.9

	95	96	97	98	99	00	01	02	03	04
	92,885	103,723	92,610	82,502	88,036	98,350	90,687	87,544	95,381	101,100
	3.6	3.9	3.5	3.1	3.3	3.6	3.3	3.2	3.4	3.7
	2.1	2.3	4.5	2.0	2.2	2.4	2.5	2.7	4.1	3.1

	05	06	07	08
	103,545	115,178	101,981	92,097
	3.7	4.1	3.6	3.2
	3.1	3.4	2.7	3.2

Sources: MOJ, *Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties*; National Tax Agency, *National Tax Agency Annual Statistics Report*.

- Notes:
1. Company entry rates = Number of incorporation registrations / Number of companies in previous year × 100.
  2. Company exit rate = Company entry rate - Rate of increase. (= (number of companies in previous year + number of incorporation registrations - number of companies in current year) / number of companies in previous year × 100).
  3. The number of incorporation registrations is from *Annual Registration Statistics* from 1955 to 1960, *Annual Report of Registration, Litigation and Civil Liberties* from 1961 to 1971, and *Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties* from 1972 onward.
  4. The number of incorporation registrations is for each calendar year.
  5. The numbers of companies in 1963 and 1964 are estimates based on the National Tax Agency's *Results of the Corporation Sample Survey*. The number of companies from 1967 includes cooperative associations.
  6. The number of companies in the years before 2006 is the number of companies which completed the business year between February 1 of that year and January 31 of the following year. The number of companies in and after 2007 is the number of companies as June 30 of the following year.

**Table 8 Number of business establishments and workers and value of shipments in manufacturing**

(1) Number of business establishments

No. of workers \ Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
4-9	213,308	198,411	190,640	206,808	186,111	186,698	161,085	144,216	150,551	130,041	143,094	121,626	117,259	126,964	108,813
10-19	76,789	74,823	72,639	73,743	70,132	67,724	71,678	67,719	65,823	64,046	57,383	60,515	62,441	60,189	56,194
20-99	82,099	80,991	79,645	78,181	74,710	72,562	69,321	65,351	64,003	63,326	62,368	62,256	63,862	61,553	57,501
100-299	11,823	11,721	11,703	11,422	11,066	11,049	10,807	10,348	10,376	10,505	10,630	10,775	11,113	10,872	10,061
300-999	3,062	3,046	3,014	2,972	2,876	2,859	2,854	2,748	2,715	2,710	2,776	2,891	3,026	2,943	2,754
1,000 or more	645	620	605	587	562	529	522	466	442	459	464	480	531	540	494
4-299	384,019	365,946	354,627	370,154	342,019	338,033	312,891	287,634	290,753	267,918	273,475	255,172	254,675	259,578	232,569
300 or more	3,707	3,666	3,619	3,559	3,438	3,388	3,376	3,214	3,157	3,169	3,240	3,371	3,557	3,483	3,248
Total	387,726	369,612	358,246	373,713	345,457	341,421	316,267	290,848	293,910	271,087	276,715	258,543	258,232	263,061	235,817

(2) Number of workers

Upper row: 1,000 workers, lower row: % of total

No. of workers \ Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
4-9	1,272 12.3	1,199 11.9	1,155 11.6	1,231 12.5	1,119 11.9	1,111 12.1	957 10.8	860 10.3	879 10.7	777 9.6	852 10.4	731 8.9	712 8.4	746 8.9	650 8.4
10-19	1,061 10.3	1,036 10.3	1,007 10.1	1,021 10.4	971 10.4	938 10.2	976 11.0	921 11.1	894 10.9	870 10.7	792 9.7	824 10.0	849 10.0	819 9.8	765 9.9
20-99	3,192 30.9	3,152 31.2	3,107 31.3	3,044 30.9	2,921 31.1	2,846 31.0	2,722 30.7	2,579 31.0	2,533 30.8	2,508 30.9	2,479 30.4	2,480 30.1	2,541 29.8	2,457 29.4	2,303 29.8
100-299	1,897 18.4	1,879 18.6	1,881 18.9	1,834 18.6	1,776 18.9	1,776 19.3	1,739 19.6	1,664 20.0	1,675 20.4	1,696 20.9	1,712 21.0	1,743 21.2	1,800 21.1	1,767 21.1	1,639 21.2
300-999	1,539 14.9	1,528 15.1	1,511 15.2	1,484 15.1	1,427 15.2	1,417 15.4	1,405 15.8	1,337 16.1	1,328 16.1	1,321 16.3	1,353 16.6	1,425 17.3	1,488 17.5	1,445 17.3	1,350 17.5
1,000 or more	1,359 13.2	1,309 13.0	1,276 12.8	1,224 12.4	1,164 12.4	1,097 11.9	1,067 12.0	963 11.6	918 11.2	944 11.6	970 11.9	1,022 12.4	1,127 13.2	1,131 13.5	1,029 13.3
4-299	7,422 71.9	7,266 71.9	7,150 72.0	7,129 72.5	6,787 72.4	6,670 72.6	6,395 72.1	6,024 72.4	5,980 72.7	5,851 72.1	5,834 71.5	5,778 70.2	5,904 69.3	5,789 69.2	5,357 69.3
300 or more	2,898 28.1	2,837 28.1	2,787 28.0	2,708 27.5	2,591 27.6	2,513 27.4	2,471 27.9	2,300 27.6	2,247 27.3	2,264 27.9	2,323 28.5	2,448 29.8	2,615 30.7	2,576 30.8	2,379 30.7
Total	10,321 100.0	10,103 100.0	9,937 100.0	9,837 100.0	9,378 100.0	9,184 100.0	8,866 100.0	8,324 100.0	8,226 100.0	8,116 100.0	8,157 100.0	8,225 100.0	8,519 100.0	8,365 100.0	7,736 100.0

(3) Value of manufactured shipments

Upper row: ¥ billion, lower row: % of total

No. of workers \ Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
4-9	13,750 4.5	13,491 4.3	13,400 4.1	13,722 4.5	12,194 4.2	12,198 4.1	10,250 3.6	9,103 3.4	9,055 3.3	8,450 3.0	9,283 3.1	8,361 2.7	8,750 2.6	8,852 2.6	7,105 2.7
10-19	16,318 5.3	16,314 5.2	16,492 5.1	16,280 5.3	15,001 5.1	14,742 4.9	14,733 5.1	13,384 5.0	12,986 4.7	13,039 4.6	12,429 4.2	13,097 4.2	14,415 4.3	14,158 4.2	11,840 4.5
20-99	67,531 22.1	68,957 22.0	70,216 21.7	67,443 22.1	63,630 21.8	63,915 21.3	61,267 21.4	57,135 21.2	57,163 20.9	59,035 20.8	59,991 20.3	61,152 19.4	65,405 19.4	65,659 19.6	55,103 20.8
100-299	59,541 19.5	60,761 19.4	63,917 19.8	60,493 19.8	59,724 20.5	62,770 20.9	60,568 21.1	58,154 21.6	59,069 21.6	63,787 22.5	64,630 21.9	68,120 21.6	70,278 20.9	70,450 21.0	58,174 21.9
300-999	70,635 23.1	73,377 23.4	76,835 23.8	72,455 23.7	68,720 23.6	73,269 24.4	70,269 24.5	66,184 24.6	69,312 25.4	71,187 25.1	76,880 26.0	84,539 26.9	87,286 25.9	86,389 25.7	67,693 25.5
1,000 or more	78,256 25.6	80,169 25.6	82,212 25.4	75,447 24.7	72,180 24.8	73,585 24.5	69,580 24.3	65,402 24.3	65,824 24.1	68,020 24.0	72,133 24.4	79,567 25.3	90,623 26.9	90,070 26.8	65,344 24.6
4-299	157,139 51.3	159,523 51.0	164,025 50.8	157,938 51.6	150,550 51.7	153,624 51.1	146,818 51.2	137,776 51.1	138,274 50.6	144,311 50.9	146,333 49.5	150,729 47.9	158,848 47.2	159,120 47.4	132,222 49.8
300 or more	148,890 48.7	153,546 49.0	159,047 49.2	147,902 48.4	140,900 48.3	146,854 48.9	139,849 48.8	131,586 48.9	135,136 49.4	139,207 49.1	149,013 50.5	164,106 52.1	177,909 52.8	176,459 52.6	133,037 50.2
Total	306,030 100.0	313,068 100.0	323,072 100.0	305,840 100.0	291,450 100.0	300,478 100.0	286,667 100.0	269,362 100.0	273,409 100.0	283,530 100.0	295,346 100.0	314,835 100.0	336,757 100.0	335,579 100.0	265,259 100.0

Source: METI, *Census of Manufactures*.

- Notes:
- Based on statistics for business establishments. The "Total" may not correspond to the total value of the items as they have been rounded off.
  - Figures were basically recalculated from the "Industry" section data for each year.
  - Table (1) shows the number of business establishments by number of workers at business establishments (plants).
  - Values for 2004 include the results (partial estimates) of the 2004 *Supplemental Survey following the Niigata Chuetsu Earthquake*. However, figures in italics indicate figures that are solely from this survey, as those results of the *Supplemental Survey* are concealed. As a result, the total of each breakdown is not consistent with manufacturing industry total.
  - Changes to survey items mean that the values of manufactured shipments since 2007 are not continuous with those in previous years.
  - Due to corrections to the 2003-2005 *Census of Manufactures*, the above figures differ from those published in the supplementary statistical data for past *White Papers on SMEs*.

**Table 9 Capital investment and value added in manufacturing**

(1) Capital investment

Upper row: ¥ billion, lower row: % of total

No. of workers \ Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
30-99	1,734 15.4	1,962 15.5	2,137 16.0	1,975 14.8	1,659 15.0	1,522 13.4	1,712 14.5	1,416 14.9	1,399 15.7	1,465 14.2	1,608 13.7	1,850 14.1	1,970 14.0	1,871 13.6	1,472 14.1
100-299	2,658 23.6	2,829 22.4	2,982 22.3	2,929 22.0	2,621 23.6	2,604 23.0	2,812 23.7	2,292 24.1	2,121 23.8	2,374 23.0	2,719 23.2	3,058 23.3	3,125 22.3	3,048 22.1	2,547 24.4
300-999	3,209 28.5	3,906 30.9	4,052 30.3	4,195 31.4	3,271 29.5	3,529 31.2	3,571 30.1	2,859 30.1	2,606 29.2	2,915 28.2	3,343 28.5	4,140 31.6	4,184 29.8	3,925 28.5	3,121 29.9
1,000 or more	3,643 32.4	3,936 31.2	4,210 31.5	4,244 31.8	3,539 31.9	3,670 32.4	3,751 31.7	2,942 30.9	2,792 31.3	3,586 34.7	4,058 34.6	4,048 30.9	4,741 33.8	4,937 35.8	3,289 31.5
30-299	4,392 39.1	4,791 37.9	5,118 38.3	4,904 36.8	4,280 38.6	4,127 36.4	4,524 38.2	3,708 39.0	3,520 39.5	3,839 37.1	4,327 36.9	4,908 37.5	5,094 36.3	4,919 35.7	4,019 38.5
300 or more	6,852 60.9	7,842 62.1	8,262 61.7	8,439 63.2	6,809 61.4	7,199 63.6	7,322 61.8	5,800 61.0	5,398 60.5	6,501 62.9	7,401 63.1	8,188 62.5	8,926 63.7	8,862 64.3	6,410 61.5
Total	11,244 100.0	12,632 100.0	13,381 100.0	13,343 100.0	11,089 100.0	11,326 100.0	11,845 100.0	9,508 100.0	8,918 100.0	10,341 100.0	11,728 100.0	13,096 100.0	14,020 100.0	13,781 100.0	10,428 100.0

Investment per worker

(Unit: ¥1,000)

No. of workers \ Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
30-99	791	906	1,000	940	820	771	907	788	792	838	925	1,061	1,104	1,079	893
100-299	1,401	1,506	1,585	1,597	1,476	1,466	1,617	1,377	1,266	1,400	1,588	1,754	1,736	1,725	1,554
300-999	2,085	2,557	2,681	2,828	2,292	2,490	2,542	2,138	1,962	2,207	2,471	2,905	2,811	2,716	2,312
1,000 or more	2,680	3,006	3,300	3,466	3,041	3,347	3,516	3,056	3,041	3,799	4,185	3,959	4,208	4,366	3,198
30-299	1,074	1,184	1,274	1,247	1,127	1,100	1,247	1,071	1,023	1,115	1,254	1,408	1,421	1,405	1,222
300 or more	2,364	2,764	2,964	3,116	2,628	2,864	2,963	2,522	2,403	2,871	3,187	3,346	3,413	3,440	2,695
Total	1,609	1,836	1,966	2,009	1,736	1,808	1,943	1,650	1,568	1,812	2,032	2,207	2,261	2,267	1,840

(2) Value added

Upper row: ¥ billion, lower row: % of total

No. of workers \ Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
4-9	7,322 6.2	7,163 6.0	7,071 5.9	7,280 6.4	6,487 6.0	6,531 5.9	5,379 5.2	4,771 4.9	4,778 4.8	4,427 4.4	4,842 4.7	4,305 4.0	4,322 4.0	4,284 4.2	3,412 4.2
10-19	7,453 6.4	7,458 6.3	7,482 6.2	7,452 6.6	6,869 6.4	6,760 6.1	7,114 6.9	6,514 6.7	6,317 6.4	6,283 6.2	5,917 5.7	6,169 5.7	6,488 6.0	6,134 6.1	5,204 6.5
20-99	27,402 23.4	28,045 23.5	28,215 23.5	27,023 23.9	25,773 23.9	26,014 23.6	24,849 24.1	22,945 23.5	22,800 23.1	23,378 23.1	23,349 22.5	23,247 21.6	23,575 21.7	22,725 22.4	19,386 24.1
100-299	22,935 19.6	23,227 19.5	23,977 20.0	22,482 19.9	22,502 20.9	23,168 21.0	22,266 21.6	21,483 22.0	22,209 22.5	23,512 23.2	23,648 22.7	23,842 22.2	23,365 21.5	21,973 21.7	18,478 23.0
300-999	25,564 21.8	26,055 21.8	26,263 21.9	24,888 22.0	23,638 21.9	24,707 22.4	22,801 22.1	21,352 21.9	21,733 22.1	22,987 22.7	23,754 22.8	25,603 23.8	24,718 22.7	23,327 23.0	18,610 23.2
1,000 or more	26,527 22.6	27,355 22.9	26,865 22.4	24,067 21.3	22,590 20.9	23,063 20.9	20,896 20.2	20,394 20.9	20,715 21.0	20,656 20.4	22,456 21.6	24,433 22.7	26,188 24.1	22,861 22.6	15,229 19.0
4-299	65,113 55.6	65,894 55.2	66,745 55.7	64,238 56.8	61,631 57.1	62,472 56.7	59,608 57.7	55,713 57.2	56,104 56.9	57,600 56.9	57,756 55.6	57,562 53.5	57,750 53.1	55,116 54.4	46,480 57.9
10-299	57,791 49.3	58,731 49.2	59,673 49.8	56,958 50.3	55,144 51.1	55,942 50.7	54,229 52.5	50,942 52.3	51,326 52.1	53,173 52.5	52,914 50.9	53,257 49.5	53,428 49.2	50,832 50.2	43,068 53.6
300 or more	52,091 44.4	53,410 44.8	53,128 44.3	48,955 43.2	46,229 42.9	47,770 43.3	43,697 42.3	41,746 42.8	42,448 43.1	43,643 43.1	46,211 44.4	50,036 46.5	50,906 46.9	46,189 45.6	33,839 42.1
Total	117,204 100.0	119,304 100.0	119,873 100.0	113,193 100.0	107,860 100.0	110,243 100.0	103,305 100.0	97,459 100.0	98,552 100.0	101,247 100.0	103,967 100.0	107,598 100.0	108,656 100.0	101,305 100.0	80,319 100.0

Source: METI, *Census of Manufactures*.

- Notes:
- Based on statistics for business establishments. The "Total" may not correspond to the total value of the items as they have been rounded off.
  - Figures were basically recalculated from the "Industry" section data for each year.
  - Capital investment equals the value of acquisitions of tangible fixed assets plus the annual change in construction in progress.
  - Where business establishments of the head office are separate from plants, investment in the same is not included.
  - In Table (2), figures for business establishments with 4-9 workers up to 2000 and business establishments with 29 or fewer workers since 2001 indicate gross value added.
  - Values for 2004 include the results (including partial estimates) of the 2004 Supplemental Survey following the Niigata Chuetsu Earthquake. Figures are only income amounts as variations in construction suspense accounts are not included in the survey. In addition, figures in italics indicate figures that are solely from this survey, as those results of the Supplemental Survey are concealed. As a result, the total of each breakdown is not consistent with manufacturing industry total.
  - Due to changes to survey items, the figures for value added since 2007 shown in (2) are not continuous with those for previous years.
  - Due to corrections to the 2003-2005 *Census of Manufactures*, the above figures differ from those published in the supplementary statistical data for past *White Papers on SMEs*.

**Table 10 Number of business establishments and workers and value of sales in wholesaling**

(1) Number of business establishments and workers

Lower row: % of total

No. of workers	No. of business establishments (1,000)							No. of workers (1,000)						
	1991	1994	1997	1999	2002	2004	2007	1991	1994	1997	1999	2002	2004	2007
1-2	101.8 (21.4)	90.4 (21.1)	83.1 (21.2)	95.5 (22.4)	84.7 (22.3)	86.4 (23.0)	77.2 (23.1)	177.5 (3.7)	158.2 (3.5)	144.1 (3.5)	155.4 (3.5)	143.5 (3.6)	145.2 (3.8)	128.8 (3.7)
3-4	123.3 (25.9)	103.0 (24.0)	94.1 (24.0)	98.2 (23.1)	88.7 (23.4)	89.7 (23.9)	78.4 (23.4)	424.8 (8.9)	356.4 (7.8)	325.4 (7.8)	339.8 (7.6)	306.8 (7.7)	309.7 (8.1)	270.8 (7.7)
5-9	132.1 (27.8)	120.1 (28.0)	109.0 (27.8)	118.1 (27.7)	105.4 (27.8)	102.9 (27.4)	90.8 (27.1)	861.1 (18.0)	786.0 (17.2)	714.4 (17.2)	774.1 (17.2)	690.5 (17.3)	674.0 (17.7)	595.0 (16.9)
10-19	70.5 (14.8)	67.8 (15.8)	61.8 (15.8)	67.2 (15.8)	59.7 (15.7)	57.3 (15.3)	52.1 (15.6)	937.9 (19.7)	901.8 (19.7)	823.2 (19.8)	895.4 (19.9)	795.3 (19.9)	764.2 (20.1)	695.4 (19.7)
20-49	36.4 (7.6)	36.0 (8.4)	32.7 (8.4)	35.4 (8.3)	30.9 (8.1)	29.6 (7.9)	27.6 (8.2)	1,066.1 (22.3)	1,055.4 (23.0)	960.6 (23.1)	1,038.4 (23.1)	904.9 (22.6)	866.8 (22.8)	809.9 (23.0)
50-99	8.4 (1.8)	8.4 (2.0)	7.6 (1.9)	8.1 (1.9)	7.1 (1.9)	6.5 (1.7)	6.1 (1.8)	567.6 (11.9)	565.2 (12.3)	514.5 (12.4)	546.4 (12.2)	477.9 (11.9)	433.2 (11.4)	408.9 (11.6)
1-99	472.5 (99.3)	425.7 (99.2)	388.4 (99.2)	422.5 (99.2)	376.4 (99.2)	372.4 (99.2)	332.1 (99.2)	4,034.8 (84.5)	3,823.1 (83.4)	3,482.3 (83.6)	3,749.4 (83.4)	3,319.0 (82.9)	3,193.1 (83.9)	2,908.8 (82.5)
100 or more	3.5 (0.7)	3.6 (0.8)	3.2 (0.8)	3.3 (0.8)	3.1 (0.8)	2.8 (0.8)	2.7 (0.8)	737.9 (15.5)	758.3 (16.6)	682.4 (16.4)	746.8 (16.6)	683.0 (17.1)	610.5 (16.1)	617.5 (17.5)
Total	476.0	429.3	391.6	425.9	379.5	375.3	334.8	4,772.7	4,581.4	4,164.7	4,496.2	4,002.0	3,803.7	3,526.3

(2) Total sales during the year and total sales during the year per worker

Lower row: % of total

No. of workers	Total sales during the year (¥ billion)							Total sales during the year per worker (¥10,000)						
	1991	1994	1997	1999	2002	2004	2007	1991	1994	1997	1999	2002	2004	2007
1-2	8,162 (1.4)	6,595 (1.3)	6,524 (1.4)	7,122 (1.4)	6,703 (1.6)	6,761 (1.7)	6,466 (1.6)	4,626	4,180	4,541	4,589	4,685	4,664	5,031
3-4	23,788 (4.2)	19,413 (3.8)	18,761 (3.9)	18,269 (3.7)	16,468 (4.0)	16,347 (4.0)	15,643 (3.8)	5,610	5,453	5,774	5,380	5,379	5,284	5,784
5-9	64,403 (11.2)	54,115 (10.5)	53,712 (11.2)	51,949 (10.5)	46,523 (11.3)	45,869 (11.3)	45,721 (11.1)	7,487	6,890	7,526	6,714	6,746	6,809	7,693
10-19	82,024 (14.3)	72,162 (14.0)	71,782 (15.0)	71,069 (14.3)	61,319 (14.8)	61,045 (15.1)	62,742 (15.2)	8,753	8,008	8,727	7,940	7,721	7,993	9,032
20-49	108,734 (19.0)	98,992 (19.2)	96,020 (20.0)	97,431 (19.7)	83,828 (20.3)	85,057 (21.0)	83,458 (20.2)	10,212	9,385	10,006	9,387	9,275	9,821	10,321
50-99	68,696 (12.0)	64,689 (12.6)	61,076 (12.7)	62,778 (12.7)	51,321 (12.4)	52,348 (12.9)	52,100 (12.6)	12,122	11,452	11,878	11,499	10,746	12,093	12,751
1-99	355,807 (62.1)	315,966 (61.4)	307,875 (64.2)	308,618 (62.3)	266,162 (64.4)	267,426 (66.0)	266,130 (64.4)	8,831	8,272	8,851	8,235	8,031	8,381	9,161
100 or more	217,358 (37.9)	198,351 (38.6)	171,939 (35.8)	186,835 (37.7)	147,192 (35.6)	138,071 (34.0)	147,402 (35.6)	29,468	26,181	25,212	25,022	21,567	22,627	23,896
Total	573,165	514,317	479,813	495,453	413,355	405,497	413,532	12,024	11,236	11,533	11,024	10,342	10,668	11,741

Source: METI, *Census of Commerce*.

- Notes:
1. The figures are tabulated according to the January 1984 revised system of industry classification for 1991, the May 1993 revised system for 1994-1999, and the March 2002 revised system for 2002-2007.
  2. The 1999 survey was conducted at the same time as the MIC's *Establishment and Enterprise Census of Japan* (a simplified questionnaire was used for both surveys), which determines existing business establishments. The figures are not therefore continuous with the figures for previous years.
  3. "Number of business establishments" is expressed as "number of stores" in the *Census of Commerce* up to 1999. However, the two are the same in content.
  4. Workers for calculating annual sales per worker exclude those employed in agency and intermediary business.

**Table 11 Number of business establishments and workers and value of sales in retailing**

(1) Number of business establishments and workers

Lower row: % of total

No. of workers	No. of business establishments (1,000)							No. of workers (1,000)						
	1991	1994	1997	1999	2002	2004	2007	1991	1994	1997	1999	2002	2004	2007
1-2	847.2 (53.2)	764.8 (51.0)	709.0 (49.9)	685.0 (48.7)	603.4 (46.4)	568.8 (45.9)	503.8 (44.3)	1,381.3 (19.9)	1,240.0 (16.8)	1,146.0 (15.6)	1,035.1 (12.9)	966.3 (12.1)	906.8 (11.7)	795.1 (10.5)
3-4	416.9 (26.2)	370.9 (24.7)	350.3 (24.7)	317.2 (22.5)	297.6 (22.9)	284.1 (22.9)	252.7 (22.2)	1,404.5 (20.2)	1,256.1 (17.0)	1,186.6 (16.1)	1,076.0 (13.4)	1,011.4 (12.7)	962.4 (12.4)	859.1 (11.3)
5-9	214.0 (13.4)	222.6 (14.8)	212.4 (15.0)	226.8 (16.1)	218.7 (16.8)	207.7 (16.8)	201.8 (17.7)	1,336.9 (19.3)	1,405.2 (19.0)	1,342.5 (18.3)	1,448.8 (18.0)	1,404.5 (17.6)	1,334.9 (17.2)	1,302.2 (17.2)
10-19	71.9 (4.5)	89.6 (6.0)	93.5 (6.6)	111.9 (8.0)	114.8 (8.8)	112.4 (9.1)	114.4 (10.1)	948.2 (13.7)	1,187.2 (16.1)	1,248.3 (17.0)	1,503.8 (18.7)	1,543.0 (19.4)	1,516.5 (19.5)	1,543.1 (20.4)
20-49	33.1 (2.1)	42.0 (2.8)	43.3 (3.1)	51.9 (3.7)	50.7 (3.9)	50.2 (4.1)	49.6 (4.4)	956.4 (13.8)	1,200.9 (16.3)	1,232.2 (16.8)	1,470.3 (18.3)	1,439.8 (18.1)	1,421.6 (18.3)	1,403.7 (18.5)
1-49	1,583.1 (99.5)	1,489.9 (99.3)	1,408.5 (99.2)	1,392.8 (99.0)	1,285.1 (98.9)	1,223.1 (98.8)	1,122.3 (98.6)	6,027.3 (86.9)	6,289.4 (85.2)	6,155.7 (83.7)	6,534.0 (81.4)	6,364.9 (79.8)	6,142.2 (79.1)	5,903.3 (77.9)
50 or more	8.1 (0.5)	10.1 (0.7)	11.2 (0.8)	14.1 (1.0)	14.9 (1.1)	14.9 (1.2)	15.5 (1.4)	909.2 (13.1)	1,094.7 (14.8)	1,195.1 (16.3)	1,494.6 (18.6)	1,607.9 (20.2)	1,620.1 (20.9)	1,676.1 (22.1)
Total	1,591.2	1,499.9	1,419.7	1,406.9	1,300.1	1,238.0	1,137.9	6,936.5	7,384.2	7,350.7	8,028.6	7,972.8	7,762.3	7,579.4

(2) Total sales during the year and total sales during the year per worker

Lower row: % of total

No. of workers	Total sales during the year (¥ billion)							Total sales during the year per worker (¥10,000)						
	1991	1994	1997	1999	2002	2004	2007	1991	1994	1997	1999	2002	2004	2007
1-2	15,224 (10.8)	13,332 (9.3)	12,485 (8.5)	10,830 (7.5)	8,816 (6.5)	8,411 (6.3)	7,251 (5.4)	1,102	1,075	1,089	1,046	912	928	912
3-4	23,006 (16.4)	20,054 (14.0)	19,573 (13.2)	15,464 (10.8)	13,457 (10.0)	12,646 (9.5)	11,891 (8.8)	1,638	1,597	1,650	1,437	1,331	1,314	1,384
5-9	28,878 (20.5)	28,999 (20.2)	28,558 (19.3)	26,305 (18.3)	24,398 (18.1)	23,395 (17.6)	24,012 (17.8)	2,160	2,064	2,127	1,816	1,737	1,753	1,844
10-19	21,409 (15.2)	23,826 (16.6)	26,051 (17.6)	27,050 (18.8)	26,510 (19.6)	26,253 (19.7)	27,488 (20.4)	2,258	2,007	2,087	1,799	1,718	1,731	1,781
20-49	21,151 (15.0)	23,919 (16.7)	25,198 (17.1)	25,774 (17.9)	24,223 (17.9)	24,445 (18.3)	24,854 (18.5)	2,212	1,992	2,045	1,753	1,682	1,720	1,771
1-49	109,668 (78.0)	110,131 (76.8)	111,865 (75.7)	105,423 (73.3)	97,404 (72.1)	95,151 (71.4)	95,495 (70.9)	1,820	1,751	1,817	1,613	1,530	1,549	1,618
50 or more	30,971 (22.0)	33,194 (23.2)	35,878 (24.3)	38,410 (26.7)	37,706 (27.9)	38,128 (28.6)	39,210 (29.1)	3,406	3,032	3,002	2,570	2,345	2,353	2,339
Total	140,638	143,325	147,743	143,833	135,109	133,279	134,705	2,028	1,941	2,010	1,792	1,695	1,717	1,777

Source: METI, *Census of Commerce*.

- Notes:
- The figures are tabulated according to the January 1984 revised system of industry classification for 1991, the May 1993 revised system for 1994-1999, and the revised March 2002 system for 2002-2007.
  - The 1999 survey was conducted at the same time as the MIC's *Establishment and Enterprise Census of Japan* (a simplified questionnaire was used for both surveys), which determines existing business establishments. The figures are not therefore continuous with the figures for previous years.
  - "Number of business establishments" is expressed as "number of stores" in the *Census of Commerce* up to 1999. However, the two are the same in content.



**Table 12 State of corporate bankruptcies**

(1) No. of corporate bankruptcies and debts

(Unit: no. of bankruptcies, ¥100 million)

Category		Year										
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
No. of bankruptcies	Overall	18,769	19,164	19,087	16,255	13,679	12,998	13,245	14,091	15,646	15,480	13,321
	Enterprises with capital stock of under ¥100 million	18,497	18,819	18,687	15,877	13,392	12,755	13,011	13,826	15,257	15,130	13,074
Debts	Overall	238,850	165,196	137,824	115,818	78,177	67,035	55,006	57,279	122,920	69,301	71,608
	Enterprises with capital stock of under ¥100 million	65,691	73,151	77,540	57,651	53,656	47,209	37,598	37,264	42,732	38,223	26,778

(2) No. of bankruptcies and debts by industry

(Unit: no. of bankruptcies, ¥100 million)

Industry		Year										
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Construction	No. of bankruptcies	6,214	6,154	5,976	5,113	4,002	3,783	3,855	4,018	4,467	4,087	3,523
	Debts	14,510	20,592	24,976	15,591	11,037	8,439	7,282	8,124	12,765	9,135	5,277
Manufacturing	No. of bankruptcies	3,529	3,670	3,615	2,787	2,195	1,971	1,856	2,022	2,341	2,619	2,095
	Debts	12,167	18,289	17,628	13,060	6,643	6,393	6,317	6,239	9,847	11,705	5,476
Commerce	No. of bankruptcies	5,448	5,535	5,411	4,573	3,811	3,512	3,664	3,893	4,048	3,885	3,258
	Debts	46,506	41,047	19,566	14,745	10,619	7,909	7,242	7,726	9,878	9,743	6,948
Real estate	No. of bankruptcies	629	667	665	574	518	485	465	463	575	596	441
	Debts	48,604	30,042	21,771	24,892	15,352	17,058	13,642	13,293	20,793	17,670	5,866
Financial and insurance	No. of bankruptcies	77	89	75	75	61	95	70	71	107	92	70
	Debts	92,008	23,734	10,784	8,096	1,982	3,065	1,571	2,243	54,885	9,563	13,198
Services	No. of bankruptcies	2,052	2,198	2,398	2,380	2,245	2,329	2,499	2,713	2,911	2,966	2,798
	Debts	21,552	26,004	39,235	31,919	29,408	21,009	15,094	16,083	10,705	8,370	14,752
Other	No. of bankruptcies	820	851	947	753	847	823	836	911	1,197	1,235	1,136
	Debts	3,503	5,488	3,864	7,515	3,136	3,162	3,858	3,572	4,047	3,115	20,091
Total	No. of bankruptcies	18,769	19,164	19,087	16,255	13,679	12,998	13,245	14,091	15,646	15,480	13,321
	Debts	238,850	165,196	137,824	115,818	78,177	67,035	55,006	57,279	122,920	69,301	71,608

(3) Breakdown of number of bankruptcies by cause

(Unit: %)

Cause	Year										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Slump in sales	55.2	55.2	57.9	62.9	65.8	65.2	63.4	64.9	65.2	69.4	74.8
Careless management	11.2	9.5	8.0	7.3	7.6	7.8	8.2	6.6	6.3	5.3	3.9
Chain reaction bankruptcy	7.7	8.3	8.8	8.2	7.3	6.9	7.1	7.1	7.7	6.5	5.8
Past difficulties	12.9	14.7	14.6	12.5	10.0	10.9	11.5	10.9	10.3	9.6	7.8
Other	13.0	12.3	10.7	9.1	9.2	9.2	9.8	10.5	10.5	9.2	7.8

Source: Tokyo Shoko Research, Ltd., *Bankruptcy White Paper*.

- Notes:
1. Only enterprises with debts of at least ¥10 million are included.
  2. (2) is tabulated using the revised industry code from fiscal 2004 onward. Data up to 2003 are not corrected retrospectively.
  3. The figures in (3) do not necessarily sum to 100 due to rounding to one decimal place.

**Table 13 Outstanding lending to SMEs by type of financial institution**

(Unit: ¥ trillion)

Financial institution	Year Month	2005				2006				2007			
		Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
Domestically-licensed banks' banking accounts total		179.4	171.7	176.0	177.7	181.6	177.8	186.2	187.1	187.4	183.0	184.5	185.2
Domestically-licensed banks' trust accounts, etc.		1.6	1.7	1.6	1.9	1.9	1.9	1.7	1.7	1.6	1.6	1.5	1.5
Credit associations		40.4	40.1	40.8	41.5	40.8	40.5	41.5	42.1	41.7	41.3	41.9	42.3
Credit cooperatives		9.2	9.1	9.2	9.3	9.3	9.3	9.4	9.4	9.4	9.3	9.4	9.5
Private-sector financial institutions total		230.6	222.5	227.6	230.4	233.6	229.5	238.8	240.2	240.0	235.2	237.3	238.4
Private-sector financial institutions total (excluding trust accounts, etc.)		229.0	220.8	226.0	228.6	231.7	227.6	237.1	238.6	238.5	233.6	235.8	237.0
Shoko Chukin Bank		9.6	9.5	9.5	9.6	9.4	9.3	9.3	9.4	9.3	9.3	9.2	9.3
Japan Finance Corporation (Small and Medium Enterprise Unit)		7.5	7.4	7.3	7.2	7.0	6.9	6.8	6.7	6.4	6.3	6.2	6.0
Japan Finance Corporation (Micro Business and Individual Unit)		8.4	8.3	8.2	8.2	7.8	7.7	7.6	7.5	7.2	7.1	7.0	7.0
Government-affiliated financial institutions total		25.5	25.2	25.0	24.9	24.3	23.9	23.7	23.5	23.0	22.7	22.4	22.4
Total outstanding lending to SMEs		256.1	247.8	252.5	255.4	257.9	253.3	262.5	263.8	263.0	257.9	259.8	260.8
Total outstanding lending to SMEs (excluding trust accounts, etc.)		254.5	246.1	250.9	253.5	256.0	251.4	260.8	262.1	261.5	256.3	258.3	259.3

Financial institution	Year Month	2008				2009				2010			
		Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
Domestically-licensed banks' banking accounts total		184.0	179.8	179.6	184.0	181.1	178.0	178.0	177.6	177.7	173.3	174.4	173.7
Domestically-licensed banks' trust accounts, etc.		1.5	1.4	1.3	1.2	1.1	1.1	1.0	1.0	0.7	0.6	0.7	0.6
Credit associations		41.6	41.3	42.0	43.0	42.7	42.3	42.6	42.8	42.1	41.4	41.7	42.0
Credit cooperatives		9.4	9.3	9.4	9.5	9.4	9.3	9.4	9.4	9.4	9.3	9.4	9.4
Private-sector financial institutions total		236.5	231.8	232.3	237.7	234.4	230.7	231.0	230.8	229.8	224.6	226.2	225.8
Private-sector financial institutions total (excluding trust accounts, etc.)		235.0	230.4	231.0	236.5	233.2	229.6	230.0	229.8	229.1	224.0	225.6	225.2
Shoko Chukin Bank		9.1	8.9	8.9	9.0	9.1	9.2	9.3	9.4	9.4	9.3	9.4	9.5
Japan Finance Corporation (Small and Medium Enterprise Unit)		5.8	5.7	5.6	5.5	5.6	6.0	6.1	6.2	6.2	6.2	6.2	6.3
Japan Finance Corporation (Micro Business and Individual Unit)		6.8	6.8	6.7	6.7	6.5	6.6	6.6	6.7	6.5	6.6	6.6	6.7
Government-affiliated financial institutions total		21.7	21.4	21.1	21.3	21.3	21.8	22.0	22.3	22.1	22.1	22.2	22.5
Total outstanding lending to SMEs		258.2	253.2	253.4	258.9	255.7	252.4	253.0	253.1	251.9	246.7	248.4	248.3
Total outstanding lending to SMEs (excluding trust accounts, etc.)		256.7	251.8	252.1	257.7	254.5	251.4	251.9	252.1	251.3	246.1	247.7	247.7

Sources: Compiled by the SME Agency from sources including BOJ, *Financial and Economic Statistics Monthly*.

- Notes:
1. Outstanding lending to SMEs through domestically-licensed banking accounts, trust accounts, etc. indicates lending to enterprises (corporate enterprises and sole proprietorships) with capital stock of ¥300 million (¥100 million or less in wholesaling, ¥50 million or less in retailing, eating and drinking places, and services) or 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places).
  2. From June 1999 onward, domestically-licensed bank trust accounts, etc. includes overseas branch accounts (to domestic borrowers).
  3. Outstanding lending to SMEs by credit associations is total outstanding lending excluding lending to individuals, local governments, overseas yen loans and domestic loans transferred overseas.
  4. Outstanding lending to SMEs by credit cooperatives is total outstanding lending including lending to individuals and local governments, etc.
  5. Until September 2008, outstanding lending of the Japan Finance Corporation (Small and Medium Enterprise Unit) was the total outstanding lending by former Japan Finance Corporation for Small and Medium Enterprise. The outstanding lending does not include equipment loan lending and outstanding lending to small and medium business investment consultation companies.
  6. Until September 2008, outstanding lending of the Japan Finance Corporation (Micro Business and Individual Unit) was the total outstanding lending by former National Life Finance Corporation.
  7. Sources are as of the end of May 2011. Figures may be retroactively revised.

**Table 14 Sales and operating costs of SMEs (surveyed industries)**

(Unit: ¥ million)

Survey items	Total	Corporate enterprises (no. of workers)				Sole proprietorship	
		5 or fewer	6-20	21-50	51 or more		
No. of enterprises in parent population	3,650,509	1,428,557	877,328	364,683	114,750	71,796	2,221,952
No. of workers	29,710,073	23,245,273	3,705,438	5,050,244	4,157,039	10,332,552	6,464,799
Sales	497,313,462	462,807,200	61,990,844	103,594,027	88,281,920	208,940,408	34,506,263
Cost of sales	366,696,586	351,020,031	41,946,901	77,365,245	67,113,707	164,594,177	15,676,555
Cost of goods purchased	...	168,455,075	23,612,566	38,709,612	32,284,624	73,848,273	...
Material costs	...	47,922,510	3,397,950	8,486,899	8,396,888	27,640,773	...
Labor costs	...	32,105,003	2,217,444	5,647,991	6,135,959	18,103,608	...
Outsourcing costs	...	48,245,795	6,216,178	13,233,099	9,879,139	18,917,379	...
Depreciation costs	...	4,901,167	399,438	763,181	942,976	2,795,572	...
Other costs	...	49,390,481	6,103,326	10,524,463	9,474,121	23,288,571	...
Gross margin	130,616,876	111,787,169	20,043,942	26,228,782	21,168,213	44,346,232	18,829,708
Selling and general administrative expenses	120,369,844	107,096,991	20,767,198	25,856,838	20,201,332	40,271,621	13,272,853
Personnel costs	55,400,305	51,744,931	9,882,600	12,933,572	9,920,320	19,008,438	3,655,374
Rent	7,606,257	6,518,343	1,619,339	1,437,093	1,141,817	2,320,094	1,087,913
Utilities expense	...	2,133,391	481,970	488,116	397,961	765,345	...
Freight and packing costs	...	3,935,739	222,738	567,792	700,788	2,444,421	...
Sales commission	...	2,145,219	268,744	451,930	394,007	1,030,539	...
Advertising expenses	...	2,041,326	220,146	406,815	311,560	1,102,804	...
Entertainment expenses	...	1,511,308	461,347	472,518	245,972	331,471	...
Depreciation costs	6,181,284	4,864,190	1,064,131	1,136,098	901,739	1,762,221	1,317,095
Employee training costs	...	176,220	27,741	37,935	33,902	76,641	...
Taxes and public charges	3,605,237	2,840,094	740,004	794,926	523,583	781,581	765,143
Other costs	47,576,762	29,186,231	5,778,437	7,130,044	5,629,684	10,648,066	6,447,328
Operating profit	10,247,033	4,690,178	-723,256	371,943	966,880	4,074,610	5,556,855
Non-operating profit and loss	...	1,405,076	313,290	321,265	286,852	483,670	...
Non-operating revenue	...	6,819,021	1,289,098	1,586,225	1,334,418	2,609,279	...
Non-operating expenses	...	5,413,945	975,809	1,264,961	1,047,566	2,125,609	...
Interest and discount expense	...	3,530,638	745,382	842,472	674,799	1,267,985	...
Other costs	...	1,883,307	230,427	422,489	372,767	857,624	...
Ordinary profit (ordinary loss)	11,652,109	6,095,254	-409,966	693,208	1,253,732	4,558,280	5,556,855
Extraordinary profit	...	2,993,157	498,507	826,459	510,372	1,157,819	...
Extraordinary loss	...	4,963,907	695,094	854,875	1,020,736	2,393,201	...
Pretax net profit (pretax net loss)	...	4,124,504	-606,554	664,791	743,369	3,322,898	...
After-tax net profit (after-tax net loss)	...	685,524	-954,340	70,027	45,849	1,523,988	...
Number of enterprises including acquisition value of petty sum depreciable assets under expenses	280,524	172,885	64,642	59,109	27,578	21,556	107,639
Amount included in expenses for acquisition value of petty sum depreciable assets	167,325	114,248	28,499	34,754	22,784	28,210	53,077
Number of assets included in expenses for acquisition value of petty sum depreciable assets	878,016	584,755	150,182	179,851	115,574	139,148	293,261

Source: SME Agency, *Basic Survey of Small and Medium Enterprises*.

- Notes:
1. The survey results are estimates based on the 2010 *Basic Survey of Small and Medium Enterprises* conducted in August 2010.
  2. The number of enterprises in the parent population is the estimated figure as of August 2010 based on the 2004 *Establishment and Enterprise Census of Japan Revised Report* taking into consideration entries, exits, and changes in size according to industry (medium group) between the 2004 *Establishment and Enterprise Census of Japan* and the 2006 *Establishment and Enterprise Census of Japan Revised Report*.
  3. These results are the results of estimates of a survey of conditions among SMEs (including sole proprietorships) sampled from among enterprises in the following divisions of industry according to the *Japan Standard Industrial Classification*: construction, manufacturing, information and communications, transport, postal services (excluding certain industries), wholesale trade, retail trade, real estate, goods rental and leasing, academic research, professional and technical services (excluding certain industries), accommodations, eating, and drinking services, living-related and personal services, amusement services, services (not otherwise classified) (excluding certain industries).
  4. "Other costs" under totals and sole proprietorships' selling and general administrative expenses includes utilities, freight and packing, sales charges, advertising costs, entertainment costs, and employee training costs.
  5. The ordinary profit of sole proprietorships is income before deduction of employees' (family employees') pay.
  6. Items that were not surveyed in the case of sole proprietorships are treated as unknown (indicated by "..." in the table).

Table 15 State of SME capital (balance sheet)

(Unit: ¥ million)

Survey items	Corporate enterprises (no. of workers)				
		5 or fewer	6-20	21-50	51 or more
No. of enterprises in parent population	1,428,557	877,328	364,683	114,750	71,796
No. of workers	23,245,273	3,705,438	5,050,244	4,157,039	10,332,552
No. of joint stock company	731,036	340,419	231,878	91,673	67,066
No. of enterprises that have set a restriction on transfer of shares	551,930	239,434	178,764	74,803	58,930
<b>Assets</b>	<b>401,256,361</b>	<b>66,131,859</b>	<b>86,575,858</b>	<b>76,997,481</b>	<b>171,551,164</b>
Liquid assets	212,902,834	31,194,940	47,337,343	42,651,648	91,718,903
Cash and deposits	73,375,408	11,479,599	18,066,452	15,781,076	28,048,281
Bills receivable and account receivable	63,788,269	6,830,960	13,088,775	12,865,933	31,002,600
Securities	6,234,996	629,115	1,009,457	881,925	3,714,499
Inventory assets	34,988,479	6,130,114	7,642,716	5,801,937	15,413,713
Other liquid assets	34,515,681	6,125,152	7,529,942	7,320,777	13,539,809
Fixed assets	186,909,692	34,655,948	38,792,010	34,118,654	79,343,081
Tangible fixed assets	141,189,505	27,962,339	29,352,266	26,173,139	57,701,762
Buildings, structures and accessory equipment for buildings	58,491,495	13,023,817	10,460,540	10,762,413	24,244,725
Machinery and equipment	13,116,725	1,217,487	2,275,148	2,446,185	7,177,906
Ships and vessels, motor vehicles and transport equipment, industrial tools, appliances, and fixtures	10,331,676	2,509,041	2,547,183	1,823,317	3,452,134
Leased assets	1,289,593	219,235	196,922	209,879	663,557
Land	66,448,331	11,787,035	14,920,387	12,475,185	27,265,724
Construction in progress	1,395,120	248,930	268,002	355,194	522,994
Other tangible fixed assets	2,295,861	320,046	542,639	529,362	903,815
Accumulated depreciation	-12,179,297	-1,363,251	-1,858,555	-2,428,397	-6,529,094
Intangible fixed assets	3,556,133	805,560	809,589	577,671	1,363,314
Investments and other assets	42,164,054	5,888,049	8,630,155	7,367,844	20,278,006
Deferred assets	1,443,836	280,971	446,506	227,180	489,180
<b>Liabilities and net assets</b>	<b>401,256,361</b>	<b>66,131,859</b>	<b>86,575,858</b>	<b>76,997,481</b>	<b>171,551,164</b>
Liabilities	273,719,080	55,220,310	59,439,156	50,534,375	108,525,239
Current liabilities	142,188,940	24,365,387	29,072,045	25,854,544	62,896,964
Bills for payment and accounts payable	49,798,632	4,967,260	9,970,189	10,407,774	24,453,408
Short-term borrowings (financial institutions)	40,810,088	5,527,435	7,899,206	6,676,536	20,706,911
Short-term borrowings (other than financial institutions)	15,799,823	7,362,716	3,889,740	1,350,921	3,196,447
Lease debts	451,219	44,048	55,492	171,604	180,076
Other current liabilities	35,329,178	6,463,928	7,257,418	7,247,709	14,360,123
Fixed liabilities	131,530,140	30,854,923	30,367,111	24,679,831	45,628,275
Corporate bonds	6,297,000	689,008	744,706	1,076,357	3,786,929
Long-term borrowings (financial institutions)	88,129,169	18,811,639	22,572,167	17,608,666	29,136,697
Long-term borrowings (other than financial institutions)	18,623,943	8,460,428	4,467,434	2,678,663	3,017,418
Lease debts	999,038	104,298	125,100	358,610	411,031
Other fixed liabilities	17,480,990	2,789,549	2,457,703	2,957,536	9,276,201
Net assets	127,537,281	10,911,548	27,136,702	26,463,106	63,025,924
Shareholders' equity	121,802,934	10,600,891	25,556,425	25,294,356	60,351,262
Capital funds	22,456,199	7,495,602	5,384,604	3,841,132	5,734,861
Capital surplus	6,106,895	360,514	592,993	1,286,228	3,867,159
Retained earnings	94,325,370	2,873,887	19,665,966	20,397,878	51,387,639
Own shares	-1,085,529	-129,112	-87,138	-230,882	-638,397
Other net assets	5,734,347	310,658	1,580,277	1,168,750	2,674,662

Source: SME Agency, *Basic Survey of Small and Medium Enterprises*.

- Notes:
1. The survey results are estimates based on the 2010 *Basic Survey of Small and Medium Enterprises* conducted in August 2010.
  2. The number of enterprises in the parent population is the estimated figure as of August 2010 based on the 2004 *Establishment and Enterprise Census of Japan Revised Report* taking into consideration entries, exits, and changes in size according to industry (medium group) between the 2004 *Establishment and Enterprise Census of Japan* and the 2006 *Establishment and Enterprise Census of Japan Revised Report*.
  3. These results are the results of estimates of a survey of conditions among SMEs (including sole proprietorships) sampled from among enterprises in the following divisions of industry according to the *Japan Standard Industrial Classification*: construction, manufacturing, information and communications, transport, postal services (excluding certain industries), wholesale trade, retail trade, real estate, goods rental and leasing, academic research, professional and technical services (excluding certain industries), accommodations, eating, and drinking services, living-related and personal services, amusement services, services (not otherwise classified) (excluding certain industries).

**Table 16 Financial status, profit status and key financial indices of corporate enterprises (median values)**

(1) All industries (non primary industry)

Item	Size	SMEs			Large enterprises		
	FY	2007	2008	2009	2007	2008	2009
Finances and profits	Sales	37,600	35,000	44,900	2,762,650	2,605,900	2,404,150
	Total assets	43,900	42,400	56,000	2,113,750	2,000,400	2,114,250
	Value added	9,000	8,079	10,400	511,650	462,700	460,150
	(Personnel costs)	6,832	6,700	8,400	344,200	337,900	339,300
	(Interest expenses)	100	100	100	4,400	4,300	3,800
	No. of workers (including officers)	17	16	20	559	557	579
Key financial indices	Quick ratio	99.7	98.3	103.8	80.5	80.6	87.3
	Equity ratio	27.4	29.2	31.6	31.9	39.3	40.6
	Ratio of operating profit to total capital	1.7	1.1	1.0	3.9	2.6	2.5
	Ratio of ordinary profit to sales	1.5	0.9	1.0	3.0	2.0	2.2
	Total capital turnover	1.2	1.1	1.0	1.3	1.3	1.2
	Interest rate on borrowing	1.6	1.6	1.6	1.7	1.7	1.6
	Value-added ratio	25.6	25.0	25.0	20.3	19.6	21.3
	Labor productivity	509	483	487	883	784	762
	Capital-labor ratio	406	403	463	828	803	789
	Ratio of fixed assets to long-term capital	58.1	62.8	59.6	70.5	62.5	59.6
	Debt redemption period (years)	11.8	13.5	14.9	4.0	4.9	4.9

(2) Manufacturing

Item	Size	SMEs			Large enterprises		
	FY	2007	2008	2009	2007	2008	2009
Finances and profits	Sales	107,600	108,300	122,100	3,955,300	3,608,600	3,373,000
	Total assets	97,600	96,850	126,800	3,685,200	3,353,900	3,703,250
	Value added	22,300	21,900	24,000	773,400	609,500	629,000
	(Personnel costs)	17,800	19,000	22,700	514,800	498,000	519,500
	(Interest expenses)	293	300	400	7,200	7,500	7,550
	No. of workers (including officers)	41	42	53	760	748	799
Key financial indices	Quick ratio	98.5	97.8	104.2	83.6	79.8	90.4
	Equity ratio	25.2	30.4	32.2	38.8	45.9	47.1
	Ratio of operating profit to total capital	2.5	1.3	0.8	4.2	1.6	2.0
	Ratio of ordinary profit to sales	2.0	1.0	0.8	4.1	1.7	2.4
	Total capital turnover	1.2	1.2	1.0	1.0	1.0	0.9
	Interest rate on borrowing	1.6	1.6	1.6	1.6	1.6	1.5
	Value-added ratio	24.3	23.3	23.5	20.5	18.7	20.1
	Labor productivity	562	516	482	1,009	810	791
	Capital-labor ratio	546	574	623	1,164	1,161	1,161
	Ratio of fixed assets to long-term capital	63.9	62.1	58.9	75.8	67.1	64.5
	Debt redemption period (years)	8.7	10.5	12.5	2.9	4.0	4.2

(3) Wholesaling/retailing

Item	Size	SMEs			Large enterprises		
	FY	2007	2008	2009	2007	2008	2009
Finances and profits	Sales	30,300	32,000	46,600	2,915,650	2,689,750	2,736,450
	Total assets	18,480	22,300	31,000	1,590,300	1,482,150	1,690,250
	Value added	4,064	4,300	5,900	324,300	315,150	309,750
	(Personnel costs)	3,600	4,000	5,600	208,900	210,350	218,400
	(Interest expenses)	53	42	100	3,900	3,900	3,500
	No. of workers (including officers)	10	10	14	375	399	401
Key financial indices	Quick ratio	91.7	93.6	96.9	73.5	71.5	76.7
	Equity ratio	22.2	21.4	22.9	24.6	31.3	31.1
	Ratio of operating profit to total capital	0.9	0.6	0.4	3.3	2.6	2.4
	Ratio of ordinary profit to sales	0.6	0.4	0.3	1.7	1.4	1.3
	Total capital turnover	1.8	1.8	1.7	1.9	1.9	1.8
	Interest rate on borrowing	1.4	1.4	1.4	1.7	1.7	1.5
	Value-added ratio	12.9	13.1	12.3	13.0	13.5	13.2
	Labor productivity	432	427	440	766	703	710
	Capital-labor ratio	182	192	220	647	584	649
	Ratio of fixed assets to long-term capital	37.8	46.8	44.4	68.2	61.0	59.2
	Debt redemption period (years)	26.2	25.6	31.6	7.1	7.9	8.2

## (4) Services

Item	Size FY	SMEs			Large enterprises		
		2007	2008	2009	2007	2008	2009
Finances and profits	Sales	19,750	20,800	26,450	953,900	946,300	851,400
	Total assets	25,350	25,020	35,300	862,600	813,000	759,500
	Value added	6,300	6,100	8,100	332,600	325,000	318,750
	(Personnel costs)	5,500	5,600	7,000	206,800	219,700	210,100
	(Interest expenses)	0	0	2	1,400	1,300	1,000
	No. of workers (including officers)	14	14	17	373	393	391
Key financial indices	Quick ratio	116.9	112.7	114.9	96.9	99.7	105.4
	Equity ratio	37.2	33.3	34.9	33.0	43.3	44.0
	Ratio of operating profit to total capital	1.2	0.6	0.9	4.8	4.1	3.2
	Ratio of ordinary profit to sales	1.5	0.9	1.5	3.9	3.7	3.3
	Total capital turnover	1.0	1.0	0.9	1.2	1.2	1.2
	Interest rate on borrowing	1.3	1.3	1.4	1.7	1.8	1.7
	Value-added ratio	36.5	37.2	36.9	37.6	38.4	40.9
	Labor productivity	427	426	452	769	765	710
	Capital-labor ratio	165	135	157	293	236	215
	Ratio of fixed assets to long-term capital	45.4	61.4	58.2	64.8	52.9	50.8
	Debt redemption period (years)	11.2	12.5	14.1	2.9	3.0	3.2

## (5) Construction

Item	Size FY	SMEs			Large enterprises		
		2007	2008	2009	2007	2008	2009
Finances and profits	Sales	23,000	21,000	26,800	5,030,100	4,938,050	4,744,800
	Total assets	17,100	14,700	21,300	3,955,600	3,826,400	3,678,000
	Value added	4,745	3,990	5,100	752,300	704,750	729,400
	(Personnel costs)	4,300	3,843	4,600	539,500	542,200	558,600
	(Interest expenses)	62	48	51	6,800	6,550	5,400
	No. of workers (including officers)	12	11	13	767	775	836
Key financial indices	Quick ratio	102.3	101.8	110.6	85.1	84.6	97.3
	Equity ratio	25.1	26.9	30.7	29.3	34.0	38.7
	Ratio of operating profit to total capital	1.4	1.1	0.9	2.4	2.6	2.7
	Ratio of ordinary profit to sales	0.8	0.6	0.7	1.9	1.9	2.3
	Total capital turnover	1.5	1.4	1.4	1.2	1.2	1.2
	Interest rate on borrowing	1.8	1.9	1.7	2.0	1.9	1.7
	Value-added ratio	19.6	19.2	19.5	13.8	14.8	16.6
	Labor productivity	436	420	431	962	964	951
	Capital-labor ratio	232	239	235	677	724	729
	Ratio of fixed assets to long-term capital	42.3	44.6	41.7	57.5	53.4	50.0
	Debt redemption period (years)	18.3	19.7	20.7	5.0	5.7	4.5

Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

- Notes:
- SMEs are defined as enterprises with capital of ¥300 million or less, or 300 or fewer employees (capital of ¥100 million or less, or 100 or fewer employees in wholesaling, capital of ¥50 million or less, or 100 or fewer employees in services, and capital of ¥50 million or less, or 50 or fewer employees in retailing). Large enterprises are all enterprises other than those defined as SMEs.
  - Value added = Net operating profit + Personnel costs (officers' pay, employees' pay, employee benefits) + Interest expenses and discount charges + Rent of movable property and real estate + Taxes and public impositions  
 Quick ratio = Quick assets / Current liabilities × 100  
 Quick assets = Cash and deposits + Trade receivables  
 Equity ratio = Equity / Total capital × 100  
 Ratio of operating profit to total capital = Operating profit / Total capital (average of beginning and end of period) × 100  
 Ratio of ordinary profit to sales = Ordinary profit / Sales × 100  
 Total capital turnover = Sales / Total capital (average of beginning and end of period)  
 Interest rate on borrowing = Interest expenses and discount charges / (Short-term and long-term borrowing + bonds + notes receivable discounted) (average of beginning and end of period) × 100  
 Value-added ratio = Value added / Sales × 100  
 Labor productivity = Value added / Number of employees  
 Capital-labor ratio = Tangible fixed assets (excluding construction in progress, average of beginning and end of period) / Number of employees  
 Ratio of fixed assets to long-term capital = Fixed assets / (Fixed liabilities + equity) × 100  
 Debt redemption period (years) = (Short-term and long-term borrowing + bonds) (beginning and end of period average) / (Ordinary profit × 50% + depreciation costs + extraordinary depreciation costs - officers' bonus - interim dividends - dividends)
  - Figures for sales, total assets, value added (personnel costs, interest expenses, discount charges), labor productivity and capital-labor ratio are in units of ¥10,000.  
 Unit for number of employees (including officers): individual employees  
 Debt redemption period: in years  
 Other financial operating ratios are in percentage.
  - Figures are sample medians.
  - The debt redemption period (in years) for enterprises whose denominator is negative is treated as 10,000 years.

**Table 17 Financial status, profit status and key financial indices of small enterprises (median values)**

(1) All industries (non primary industry)

Item		Size	Small enterprises		
		FY	2007	2008	2009
Finances and profits	Sales		6,600	6,200	7,303
	Total assets		7,118	7,146	10,500
	Value added		1,755	1,631	1,883
	(Personnel costs)		1,400	1,397	1,587
	(Interest expenses)		0	0	0
	No. of workers (including officers)		5	4	5
Key financial indices	Quick ratio		104.0	103.2	112.3
	Equity ratio		29.2	22.7	26.7
	Ratio of operating profit to total capital		0.5	0.0	0.0
	Ratio of ordinary profit to sales		0.6	0.3	0.2
	Total capital turnover		1.1	1.1	0.9
	Interest rate on borrowing		0.8	1.0	0.9
	Value-added ratio		28.8	28.6	27.5
	Labor productivity		367.8	363.5	373.6
	Capital-labor ratio		211.1	205.7	250.0
	Ratio of fixed assets to long-term capital		46.6	63.6	59.8
	Debt redemption period (years)		19.9	23.0	28.4

(2) Manufacturing

Item		Size	Small enterprises		
		FY	2007	2008	2009
Finances and profits	Sales		7,800	7,500	9,088
	Total assets		7,000	7,177	9,700
	Value added		2,366	2,200	2,284
	(Personnel costs)		2,100	2,256	2,597
	(Interest expenses)		5	6	4
	No. of workers (including officers)		7	7	7
Key financial indices	Quick ratio		109.8	113.4	124.2
	Equity ratio		24.0	18.6	20.7
	Ratio of operating profit to total capital		0.6	0.0	-2.5
	Ratio of ordinary profit to sales		0.6	0.1	-0.9
	Total capital turnover		1.3	1.2	1.0
	Interest rate on borrowing		1.0	1.1	1.0
	Value-added ratio		30.9	29.9	27.2
	Labor productivity		367.1	356.5	331.0
	Capital-labor ratio		194.5	199.0	234.2
	Ratio of fixed assets to long-term capital		45.5	56.5	52.9
	Debt redemption period (years)		17.8	23.7	56.0

(3) Wholesaling/retailing

Item		Size	Small enterprises		
		FY	2007	2008	2009
Finances and profits	Sales		5,300	5,205	5,859
	Total assets		3,600	3,400	4,500
	Value added		800	865	900
	(Personnel costs)		744	804	887
	(Interest expenses)		0	0	0
	No. of workers (including officers)		3	3	3
Key financial indices	Quick ratio		87.9	94.7	100.0
	Equity ratio		27.8	12.4	15.1
	Ratio of operating profit to total capital		-0.6	-1.5	-1.0
	Ratio of ordinary profit to sales		0.0	0.0	0.0
	Total capital turnover		1.6	1.8	1.5
	Interest rate on borrowing		0.0	0.0	0.0
	Value-added ratio		14.4	15.2	12.7
	Labor productivity		275.0	266.7	299.4
	Capital-labor ratio		100.0	90.8	116.2
	Ratio of fixed assets to long-term capital		25.3	43.2	40.9
	Debt redemption period (years)		74.5	63.5	116.0

## (4) Services

Item		Size	Small enterprises		
		FY	2007	2008	2009
Finances and profits	Sales		2,386	2,345	2,961
	Total assets		2,002	2,321	4,335
	Value added		796	771	876
	(Personnel costs)		724	700	800
	(Interest expenses)		0	0	0
	No. of workers (including officers)		3	3	3
Key financial indices	Quick ratio		103.3	93.5	98.7
	Equity ratio		42.6	20.8	27.5
	Ratio of operating profit to total capital		0.0	-0.2	0.0
	Ratio of ordinary profit to sales		0.0	0.0	0.0
	Total capital turnover		1.2	1.1	0.8
	Interest rate on borrowing		0.0	0.0	0.0
	Value-added ratio		35.0	36.4	34.8
	Labor productivity		286.2	303.2	317.2
	Capital-labor ratio		65.6	66.8	64.9
	Ratio of fixed assets to long-term capital		27.0	62.1	56.2
Debt redemption period (years)		33.8	38.5	49.7	

## (5) Construction

Item		Size	Small enterprises		
		FY	2007	2008	2009
Finances and profits	Sales		11,500	11,300	12,150
	Total assets		7,800	7,961	8,809
	Value added		2,509	2,400	2,600
	(Personnel costs)		2,400	2,300	2,551
	(Interest expenses)		5	11	0
	No. of workers (including officers)		7	7	8
Key financial indices	Quick ratio		114.7	113.0	122.9
	Equity ratio		25.7	25.0	25.2
	Ratio of operating profit to total capital		0.9	0.4	0.0
	Ratio of ordinary profit to sales		0.5	0.3	0.2
	Total capital turnover		1.6	1.5	1.4
	Interest rate on borrowing		1.3	1.6	1.2
	Value-added ratio		22.9	21.5	21.3
	Labor productivity		371.3	362.5	365.7
	Capital-labor ratio		150.8	162.0	150.0
	Ratio of fixed assets to long-term capital		36.3	42.9	40.0
Debt redemption period (years)		23.7	28.2	41.0	

Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

- Notes:
- Small enterprises are defined as enterprises that are SMEs with 20 or fewer employees (in wholesaling, services, and retailing SMEs with 5 or fewer employees).
  - Value added = Net operating profit + Personnel costs (officers' pay, employees' pay, employee benefits) + Interest expenses and discount charges + Rent of movable property and real estate + Taxes and public impositions  
 Quick ratio = Quick assets / Current liabilities × 100  
 Quick assets = Cash and deposits + Trade receivables  
 Equity ratio = Equity / Total capital × 100  
 Ratio of operating profit to total capital = Operating profit / Total capital (average of beginning and end of period) × 100  
 Ratio of ordinary profit to sales = Ordinary profit / Sales × 100  
 Total capital turnover = Sales / Total capital (average of beginning and end of period)  
 Interest rate on borrowing = Interest expenses and discount charges / (Short-term and long-term borrowing + bonds + notes receivable discounted) (average of beginning and end of period) × 100  
 Value-added ratio = Value added / Sales × 100  
 Labor productivity = Value added / Number of employees  
 Capital-labor ratio = Tangible fixed assets (excluding construction in progress, average of beginning and end of period) / Number of employees  
 Ratio of fixed assets to long-term capital = Fixed assets / (Fixed liabilities + equity) × 100  
 Debt redemption period (years) = (Short-term and long-term borrowing + bonds) (beginning and end of period average) / (Ordinary profit × 50% + depreciation costs + extraordinary depreciation costs - officers' bonus - interim dividends - dividends)
  - Figures for sales, total assets, value added (personnel costs, interest expenses), labor productivity and capital-labor ratio are in units of ¥10,000.  
 Unit for number of employees (including officers): individual employees  
 Debt redemption period: in years  
 Other financial operating ratios are in percentage.
  - Figures are sample medians.
  - The debt redemption period (in years) for enterprises whose denominator is negative is treated as 10,000 years.



**Table 18 Business conditions DI by prefecture**

(1) All industries

Change from previous quarter (seasonally adjusted)

Prefecture	2008		2009				2010				2011	Change from previous quarter
	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	
National	-37.1	-41.9	-49.6	-43.3	-38.5	-36.2	-34.2	-30.8	-29.0	-27.9	-26.3	1.6
Hokkaido	-35.7	-40.6	-38.8	-39.6	-36.2	-31.9	-32.5	-30.8	-29.7	-27.1	-23.6	3.5
South/Central Hokkaido	-35.8	-42.2	-40.3	-42.0	-38.5	-34.1	-34.8	-33.3	-32.5	-31.4	-27.0	4.4
North Hokkaido/Okhotsk	-38.1	-39.0	-42.0	-40.8	-35.3	-29.7	-26.7	-25.4	-19.6	-11.2	-13.2	-2.0
Tokachi, Kushiro, Nemuro	-32.4	-35.4	-34.5	-29.4	-28.3	-24.5	-34.0	-25.3	-28.9	-24.3	-26.8	-2.5
Tohoku	-41.5	-42.6	-51.8	-42.7	-38.8	-36.7	-36.7	-34.6	-30.6	-30.3	-29.9	0.4
Aomori	-44.4	-49.7	-50.2	-41.9	-41.0	-43.1	-45.4	-45.3	-36.2	-43.5	-29.3	14.2
Iwate	-41.1	-36.6	-47.1	-40.0	-36.2	-36.0	-30.0	-29.9	-29.7	-25.8	-27.2	-1.4
Miyagi	-43.1	-46.0	-55.6	-48.0	-45.8	-46.3	-41.8	-38.4	-35.9	-33.0	-29.4	3.6
Akita	-40.4	-42.5	-49.7	-39.9	-37.5	-29.2	-30.0	-35.3	-23.8	-29.3	-29.3	0.0
Yamagata	-40.7	-42.5	-49.6	-39.6	-33.4	-32.6	-36.5	-31.8	-29.2	-31.0	-29.7	1.3
Fukushima	-39.9	-39.9	-55.5	-46.3	-39.0	-36.5	-35.6	-29.2	-30.1	-25.9	-30.0	-4.1
Kanto	-35.3	-41.7	-50.4	-42.7	-38.1	-35.6	-33.7	-28.9	-29.2	-26.8	-24.1	2.7
Ibaraki	-38.2	-43.4	-43.7	-36.2	-34.2	-31.5	-27.9	-25.4	-30.7	-25.0	-22.5	2.5
Tochigi	-38.0	-34.9	-57.0	-40.2	-43.0	-41.9	-27.8	-32.1	-25.6	-26.6	-28.4	-1.8
Gunma	-30.6	-36.4	-50.4	-43.2	-34.7	-33.9	-35.6	-28.1	-31.7	-24.0	-21.3	2.7
Saitama	-34.3	-42.6	-46.7	-44.2	-38.0	-34.3	-31.4	-29.5	-20.9	-23.0	-23.8	-0.8
Chiba	-28.5	-35.3	-40.6	-34.1	-32.0	-26.9	-28.3	-30.9	-29.7	-23.8	-22.5	1.3
Tokyo	-36.2	-42.1	-49.3	-41.9	-36.2	-37.5	-36.0	-30.2	-30.1	-29.2	-21.2	8.0
Kanagawa	-36.6	-48.4	-53.5	-49.3	-41.2	-38.5	-36.5	-37.9	-35.0	-27.4	-22.7	4.7
Niigata	-36.0	-41.8	-53.8	-45.8	-41.3	-43.2	-36.8	-28.6	-29.6	-31.3	-29.8	1.5
Yamanashi	-41.7	-40.9	-51.7	-40.9	-37.1	-33.0	-26.9	-24.5	-28.0	-26.7	-21.7	5.0
Nagano	-41.0	-47.8	-50.3	-43.7	-39.4	-30.5	-31.5	-21.5	-26.4	-26.4	-25.0	1.4
Shizuoka	-31.1	-43.2	-50.0	-45.3	-43.3	-37.4	-35.1	-28.0	-34.6	-27.8	-21.3	6.5
Chubu	-37.4	-44.3	-52.6	-46.2	-39.4	-38.2	-34.2	-29.7	-27.4	-27.9	-24.8	3.1
Toyama	-31.5	-43.3	-49.6	-35.0	-34.1	-34.2	-27.9	-20.5	-25.7	-18.7	-23.0	-4.3
Ishikawa	-40.9	-45.9	-53.9	-44.7	-42.5	-35.0	-30.8	-29.3	-22.5	-23.2	-29.1	-5.9
Gifu	-40.0	-44.1	-52.3	-50.5	-42.1	-41.4	-38.1	-28.6	-28.5	-34.6	-26.1	8.5
Aichi	-36.5	-44.8	-50.6	-49.4	-39.8	-36.5	-33.0	-30.2	-25.7	-24.5	-19.1	5.4
Mie	-39.8	-44.2	-55.4	-46.8	-40.9	-43.1	-37.2	-37.2	-33.0	-37.0	-27.1	9.9
Kinki	-36.7	-43.0	-50.7	-48.6	-36.5	-37.5	-33.6	-28.2	-27.8	-28.6	-25.7	2.9
Fukui	-35.8	-43.4	-51.0	-48.7	-52.6	-38.9	-35.1	-36.9	-30.5	-36.3	-22.3	14.0
Shiga	-38.4	-47.6	-56.5	-48.0	-39.2	-42.0	-36.5	-29.0	-33.8	-28.7	-23.9	4.8
Kyoto	-47.3	-48.8	-53.5	-49.5	-39.4	-36.5	-33.9	-28.7	-33.3	-35.3	-28.7	6.6
Osaka	-33.7	-42.4	-51.1	-52.7	-35.3	-38.0	-34.7	-24.3	-23.9	-25.6	-20.1	5.5
Hyogo	-34.3	-38.7	-51.9	-52.2	-36.6	-38.5	-29.9	-28.1	-27.6	-28.7	-31.7	-3.0
Nara	-37.5	-40.4	-43.4	-38.8	-26.6	-31.8	-30.2	-28.8	-30.1	-22.1	-20.2	1.9
Wakayama	-37.9	-42.3	-48.8	-44.9	-35.2	-32.0	-33.2	-31.9	-24.5	-29.9	-34.0	-4.1
Chugoku	-37.1	-43.9	-51.1	-42.2	-40.3	-35.2	-34.6	-30.9	-25.8	-27.8	-26.7	1.1
Tottori	-36.7	-43.2	-51.0	-42.2	-40.3	-29.8	-15.6	-28.8	-20.9	-26.5	-28.9	-2.4
Shimane	-38.0	-44.4	-44.1	-44.4	-39.4	-33.2	-35.1	-25.7	-22.7	-24.9	-29.0	-4.1
Okayama	-45.2	-48.8	-53.1	-45.1	-37.2	-34.0	-30.6	-32.0	-33.2	-30.7	-23.7	7.0
Hiroshima	-32.4	-35.7	-44.5	-33.3	-34.6	-33.9	-40.9	-32.7	-18.2	-25.8	-21.8	4.0
Yamaguchi	-36.0	-46.5	-58.5	-48.0	-48.7	-40.7	-40.3	-34.9	-32.4	-29.8	-27.5	2.3
Shikoku	-37.2	-42.1	-45.9	-42.7	-41.6	-38.6	-33.7	-35.3	-30.9	-30.7	-29.9	0.8
Tokushima	-36.2	-45.8	-49.4	-44.2	-44.4	-42.2	-33.5	-34.6	-29.1	-28.1	-27.1	1.0
Kagawa	-35.5	-40.1	-40.3	-38.2	-34.3	-35.2	-35.7	-34.7	-23.4	-28.4	-27.6	0.8
Ehime	-40.4	-45.1	-50.4	-46.7	-46.9	-41.9	-35.5	-42.2	-41.9	-37.8	-31.6	6.2
Kochi	-35.9	-34.2	-40.8	-40.4	-39.5	-33.0	-28.2	-26.9	-24.6	-25.0	-33.2	-8.2
Kyushu/Okinawa	-37.2	-39.9	-46.4	-38.5	-36.9	-36.2	-33.4	-31.8	-29.5	-28.2	-28.7	-0.5
Fukuoka	-37.8	-42.9	-50.9	-43.3	-42.1	-37.1	-33.8	-33.1	-29.4	-28.2	-30.1	-1.9
Saga	-41.8	-40.6	-50.9	-42.8	-40.5	-42.1	-41.0	-35.3	-33.6	-31.5	-31.2	0.3
Nagasaki	-40.8	-45.2	-53.3	-38.3	-44.2	-42.9	-40.5	-31.2	-34.9	-30.6	-34.9	-4.3
Kumamoto	-38.3	-42.5	-44.9	-40.8	-34.0	-31.9	-29.9	-22.8	-24.3	-24.8	-17.3	7.5
Oita	-40.4	-41.8	-46.8	-44.0	-40.7	-41.6	-35.7	-35.6	-33.4	-32.9	-30.5	2.4
Miyazaki	-40.0	-46.6	-48.2	-35.3	-38.0	-33.3	-34.8	-44.8	-41.4	-30.9	-40.1	-9.2
Kagoshima	-34.9	-39.3	-41.4	-36.3	-28.7	-35.5	-27.6	-34.3	-28.7	-29.3	-24.1	5.2
Okinawa	-20.4	-22.3	-26.8	-21.8	-20.7	-27.1	-18.8	-13.6	-7.3	-19.3	-13.6	5.7

Source: SME Agency and SMRJ, Survey on SME Business Conditions.

## (2) Manufacturing

Change from previous quarter (seasonally adjusted)

Prefecture	2008		2009				2010				2011	Change from previous quarter
	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	
National	-34.9	-43.0	-54.3	-44.5	-34.9	-31.7	-26.1	-19.3	-21.1	-22.3	-16.1	6.2
Hokkaido	-32.4	-39.1	-32.1	-37.7	-33.7	-30.6	-30.0	-19.2	-28.0	-30.0	-19.5	10.5
South/Central Hokkaido	-29.0	-34.6	-29.1	-36.8	-31.4	-31.7	-28.9	-21.5	-38.4	-36.0	-20.2	15.8
North Hokkaido/Okhotsk	-36.7	-40.9	-38.5	-42.1	-29.3	-27.0	-20.3	-10.9	-4.5	-15.2	-22.3	-7.1
Tokachi, Kushiro, Nemuro	-37.6	-60.3	-37.7	-36.1	-44.8	-32.8	-46.9	-18.8	-11.1	-23.5	-16.6	6.9
Tohoku	-35.6	-37.9	-50.6	-41.7	-36.2	-33.2	-29.1	-22.4	-24.5	-20.5	-17.7	2.8
Aomori	-31.7	-37.6	-34.2	-25.2	-39.7	-54.7	-44.6	-32.6	-38.5	-13.8	-1.9	11.9
Iwate	-43.5	-30.3	-47.0	-42.4	-32.0	-31.4	-19.1	-14.7	-28.5	-15.6	-14.4	1.2
Miyagi	-36.8	-29.4	-57.5	-45.4	-39.8	-52.3	-45.9	-21.7	-31.5	-26.9	-29.0	-2.1
Akita	-26.5	-31.4	-42.7	-37.0	-39.5	-21.6	-15.5	-29.9	-11.1	-22.2	-16.5	5.7
Yamagata	-42.7	-51.0	-56.7	-50.9	-35.2	-30.1	-27.9	-23.7	-24.6	-30.5	-24.3	6.2
Fukushima	-35.2	-49.2	-53.0	-46.6	-34.3	-24.9	-21.6	-13.1	-22.1	-15.2	-16.6	-1.4
Kanto	-37.2	-47.1	-64.0	-47.8	-38.4	-29.7	-25.0	-15.1	-19.2	-20.8	-12.7	8.1
Ibaraki	-44.8	-49.5	-60.2	-38.8	-45.9	-21.2	-23.3	-5.6	-15.2	-16.1	-5.3	10.8
Tochigi	-31.3	-44.9	-59.1	-55.8	-41.9	-38.9	-4.9	-21.3	-22.8	-33.6	-18.5	15.1
Gunma	-29.1	-35.5	-58.5	-45.0	-27.9	-31.7	-28.3	-19.5	-26.2	-15.4	-12.2	3.2
Saitama	-35.7	-45.4	-65.6	-44.6	-41.8	-28.5	-26.2	-15.5	-10.0	-20.2	-14.6	5.6
Chiba	-27.0	-34.1	-49.7	-40.1	-39.2	-31.6	-31.1	-34.0	-26.5	-30.4	-16.3	14.1
Tokyo	-40.6	-51.9	-64.4	-47.1	-41.8	-30.4	-33.7	-25.9	-19.4	-24.0	-5.1	18.9
Kanagawa	-35.2	-56.8	-72.5	-63.0	-37.3	-31.0	-16.8	-21.1	-22.0	-20.5	-12.5	8.0
Niigata	-38.7	-47.8	-67.8	-55.0	-39.6	-40.5	-33.3	-13.9	-19.0	-26.7	-14.3	12.4
Yamanashi	-40.9	-46.9	-57.7	-29.7	-19.9	-16.8	-6.7	-3.0	-17.9	-11.8	-9.3	2.5
Nagano	-45.2	-61.6	-67.8	-49.8	-28.4	-12.7	-6.6	7.6	-6.2	-19.4	-11.4	8.0
Shizuoka	-34.5	-45.8	-61.7	-52.0	-46.4	-36.6	-30.9	-25.0	-24.9	-18.8	-7.8	11.0
Chubu	-32.9	-45.5	-55.2	-44.7	-31.1	-30.6	-19.7	-15.0	-18.5	-17.0	-10.1	6.9
Toyama	-25.9	-45.2	-52.6	-33.0	-25.6	-22.2	-15.3	-3.3	-25.9	-9.8	-9.4	0.4
Ishikawa	-35.9	-48.3	-49.2	-46.0	-34.4	-27.5	-3.9	-28.3	-21.6	-4.0	-8.5	-4.5
Gifu	-35.2	-41.2	-49.5	-48.9	-39.0	-35.8	-20.5	-6.5	-16.0	-17.5	-18.5	-1.0
Aichi	-40.6	-50.9	-59.2	-49.8	-31.6	-26.6	-21.6	-17.7	-14.3	-14.3	-0.9	13.4
Mie	-25.8	-36.6	-59.3	-42.1	-30.2	-38.0	-27.3	-23.8	-22.3	-33.8	-18.2	15.6
Kinki	-34.9	-44.8	-57.1	-50.5	-33.1	-33.6	-24.9	-18.1	-20.5	-22.0	-15.4	6.6
Fukui	-40.4	-57.4	-68.1	-57.9	-59.2	-38.9	-32.1	-23.1	-24.4	-29.6	-0.3	29.3
Shiga	-34.9	-49.5	-69.1	-54.3	-30.6	-26.7	-26.4	-7.3	-25.7	-23.8	-13.8	10.0
Kyoto	-48.3	-44.9	-58.5	-51.0	-29.4	-33.7	-26.7	-31.0	-31.0	-36.6	-24.8	11.8
Osaka	-31.0	-47.8	-59.1	-54.4	-30.3	-32.7	-26.6	-17.6	-15.4	-22.9	-12.3	10.6
Hyogo	-28.2	-33.9	-59.2	-49.1	-41.4	-30.6	-22.3	-16.0	-26.1	-13.3	-26.8	-13.5
Nara	-36.5	-37.9	-42.7	-35.7	-20.6	-37.4	-20.2	-14.4	-17.2	-19.5	-6.9	12.6
Wakayama	-40.3	-45.5	-46.6	-45.6	-29.1	-34.9	-21.9	-16.8	-13.0	-8.5	-18.6	-10.1
Chugoku	-31.1	-41.1	-53.5	-40.7	-32.3	-30.4	-26.1	-18.4	-16.3	-20.5	-10.6	9.9
Tottori	-32.6	-39.9	-50.7	-45.1	-26.1	-20.1	-23.2	-10.9	6.2	-26.5	-14.4	12.1
Shimane	-41.2	-47.7	-46.5	-43.8	-33.5	-21.5	-16.9	-21.4	-12.0	-24.7	-14.6	10.1
Okayama	-41.4	-47.7	-59.4	-34.3	-16.9	-24.3	-20.6	-14.2	-16.6	-14.4	-2.3	12.1
Hiroshima	-18.7	-28.5	-45.2	-37.6	-33.8	-32.6	-28.2	-23.5	-9.4	-14.4	-11.3	3.1
Yamaguchi	-29.5	-43.5	-60.2	-46.5	-50.3	-45.0	-34.8	-24.1	-39.5	-26.3	-10.3	16.0
Shikoku	-32.9	-40.2	-44.1	-43.0	-36.2	-31.5	-29.0	-31.7	-28.2	-30.3	-26.2	4.1
Tokushima	-33.7	-49.4	-51.0	-48.5	-37.8	-31.5	-17.1	-21.4	-20.0	-22.7	-24.2	-1.5
Kagawa	-20.8	-31.7	-27.4	-39.7	-31.3	-28.2	-42.9	-26.7	-16.6	-26.9	-23.8	3.1
Ehime	-33.7	-41.6	-50.0	-42.6	-36.2	-33.7	-25.5	-40.0	-36.6	-41.2	-25.4	15.8
Kochi	-49.4	-42.5	-45.1	-40.4	-41.8	-39.3	-28.4	-39.8	-42.7	-23.6	-42.2	-18.6
Kyushu/Okinawa	-36.8	-38.3	-43.3	-38.3	-35.8	-33.9	-29.1	-25.3	-28.1	-27.9	-22.8	5.1
Fukuoka	-36.8	-43.6	-52.9	-46.7	-44.4	-42.1	-31.9	-27.9	-29.3	-21.3	-21.4	-0.1
Saga	-38.5	-44.1	-60.9	-48.2	-50.6	-47.2	-45.7	-38.1	-30.7	-23.9	-27.9	-4.0
Nagasaki	-40.5	-40.1	-45.5	-46.0	-49.8	-42.2	-38.9	-27.8	-29.0	-32.3	-42.1	-9.8
Kumamoto	-45.0	-42.0	-41.7	-39.4	-38.7	-33.5	-25.6	-25.8	-36.5	-34.5	-17.6	16.9
Oita	-42.4	-44.5	-44.1	-45.3	-33.8	-31.3	-32.5	-23.7	-24.6	-33.9	-16.2	17.7
Miyazaki	-42.5	-36.9	-40.3	-33.3	-27.8	-27.8	-21.0	-31.4	-35.2	-25.6	-29.9	-4.3
Kagoshima	-24.6	-37.1	-31.7	-24.9	-21.8	-24.6	-21.4	-15.9	-33.1	-24.2	-17.6	6.6
Okinawa	-23.7	-8.5	-23.0	-15.2	-14.0	-16.9	-16.4	-10.1	-6.3	-34.1	-12.7	21.4

Source: SME Agency and SMRJ, Survey on SME Business Conditions.

## (3) Non-manufacturing

Change from previous quarter (seasonally adjusted)

Prefecture	2008		2009				2010				2011	Change from previous quarter
	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	
National	-37.8	-41.6	-47.9	-42.9	-39.7	-37.6	-36.7	-34.7	-31.3	-29.8	-29.8	0.0
Hokkaido	-37.1	-40.9	-40.2	-40.0	-37.2	-32.0	-32.9	-34.0	-30.3	-25.7	-24.6	1.1
South/Central Hokkaido	-38.4	-44.6	-41.8	-43.5	-41.2	-35.3	-34.9	-36.8	-31.1	-30.1	-28.3	1.8
North Hokkaido/Okhotsk	-38.5	-38.3	-43.3	-40.5	-37.2	-30.0	-28.8	-29.7	-24.3	-10.1	-10.7	-0.6
Tokachi, Kushiro, Nemuro	-31.8	-30.9	-33.5	-28.3	-25.4	-23.0	-30.9	-27.6	-32.2	-25.1	-26.2	-1.1
Tohoku	-43.2	-44.1	-52.1	-43.3	-39.6	-37.7	-38.8	-38.5	-32.4	-33.8	-33.2	0.6
Aomori	-47.6	-52.7	-53.5	-47.2	-41.3	-40.2	-44.6	-49.3	-34.8	-50.9	-36.9	14.0
Iwate	-40.4	-40.0	-45.9	-39.1	-38.0	-38.5	-32.5	-35.2	-30.2	-31.5	-31.4	0.1
Miyagi	-44.9	-51.1	-54.9	-49.5	-47.5	-44.5	-40.2	-43.9	-37.4	-34.8	-28.5	6.3
Akita	-45.3	-47.7	-50.3	-41.4	-37.0	-32.8	-32.6	-37.4	-28.7	-32.0	-31.5	0.5
Yamagata	-40.9	-39.0	-46.1	-35.6	-33.5	-33.0	-39.3	-34.3	-30.7	-31.0	-31.7	-0.7
Fukushima	-41.6	-37.1	-55.6	-46.7	-40.9	-39.9	-39.3	-34.1	-33.0	-29.0	-33.2	-4.2
Kanto	-34.7	-39.7	-45.5	-41.1	-38.3	-37.5	-36.6	-33.4	-32.8	-28.8	-28.1	0.7
Ibaraki	-35.7	-39.3	-38.5	-33.7	-29.7	-35.1	-32.2	-34.3	-38.2	-28.7	-31.8	-3.1
Tochigi	-40.5	-32.0	-55.7	-32.4	-43.2	-45.0	-37.1	-35.3	-27.0	-26.4	-31.2	-4.8
Gunma	-31.5	-37.3	-45.9	-42.8	-37.3	-35.3	-37.4	-32.1	-33.8	-27.9	-24.8	3.1
Saitama	-32.0	-40.6	-41.3	-45.1	-35.0	-35.1	-35.3	-34.9	-24.1	-22.8	-27.9	-5.1
Chiba	-28.8	-35.4	-38.6	-33.0	-30.0	-25.7	-27.6	-30.6	-30.6	-22.6	-23.8	-1.2
Tokyo	-34.7	-39.8	-44.1	-41.2	-34.5	-40.0	-35.5	-31.8	-32.1	-31.8	-25.3	6.5
Kanagawa	-36.3	-46.5	-48.3	-45.6	-41.7	-41.1	-42.0	-42.2	-38.4	-29.3	-25.5	3.8
Niigata	-34.7	-39.2	-47.6	-43.2	-41.9	-44.1	-37.0	-34.8	-33.4	-33.4	-35.3	-1.9
Yamanashi	-42.7	-38.0	-49.8	-45.8	-44.0	-38.2	-34.2	-32.4	-32.3	-32.6	-26.2	6.4
Nagano	-40.3	-44.1	-44.9	-41.9	-42.8	-35.4	-38.5	-30.5	-32.3	-28.5	-28.8	-0.3
Shizuoka	-26.3	-41.8	-44.6	-45.6	-38.6	-37.7	-37.2	-31.9	-35.9	-31.4	-27.8	3.6
Chubu	-39.3	-43.6	-51.4	-46.9	-43.0	-40.5	-38.9	-35.2	-30.9	-31.3	-29.8	1.5
Toyama	-35.4	-42.0	-47.2	-36.0	-39.3	-38.2	-32.1	-27.1	-28.0	-22.1	-29.1	-7.0
Ishikawa	-42.5	-46.2	-53.4	-44.3	-44.8	-37.4	-34.8	-29.5	-23.4	-28.8	-33.1	-4.3
Gifu	-41.3	-45.1	-53.3	-50.9	-43.0	-43.2	-43.6	-36.5	-33.0	-40.5	-28.5	12.0
Aichi	-34.7	-41.4	-47.2	-49.1	-43.3	-39.8	-37.9	-35.5	-30.6	-28.2	-26.7	1.5
Mie	-44.1	-46.6	-53.4	-49.8	-43.8	-44.6	-40.1	-42.0	-36.5	-38.2	-29.7	8.5
Kinki	-37.2	-42.1	-47.9	-48.4	-37.9	-38.7	-36.8	-32.8	-30.6	-31.0	-29.4	1.6
Fukui	-32.7	-37.8	-44.8	-46.1	-48.9	-38.8	-36.5	-42.0	-31.7	-39.2	-30.8	8.4
Shiga	-39.6	-47.2	-51.1	-46.0	-41.9	-46.1	-40.5	-36.5	-36.7	-29.2	-28.2	1.0
Kyoto	-44.9	-50.9	-51.9	-50.3	-41.5	-37.7	-37.4	-29.2	-33.4	-34.0	-30.6	3.4
Osaka	-34.9	-40.1	-47.5	-51.8	-37.6	-40.2	-38.1	-26.9	-27.5	-26.9	-23.4	3.5
Hyogo	-36.5	-40.1	-48.9	-54.6	-34.1	-40.4	-33.0	-34.0	-27.4	-33.8	-34.3	-0.5
Nara	-37.9	-42.4	-43.3	-39.9	-28.9	-30.2	-33.9	-34.1	-35.9	-22.8	-25.9	-3.1
Wakayama	-36.9	-40.9	-49.2	-45.3	-37.7	-30.7	-37.2	-38.2	-28.2	-37.9	-39.8	-1.9
Chugoku	-39.0	-44.6	-50.1	-43.3	-42.9	-36.6	-37.3	-35.5	-29.0	-30.0	-31.4	-1.4
Tottori	-38.2	-44.5	-50.3	-41.7	-45.4	-33.1	-11.9	-36.2	-30.0	-28.1	-30.9	-2.8
Shimane	-36.8	-43.0	-44.0	-44.9	-40.8	-36.0	-41.2	-27.0	-25.7	-23.7	-34.8	-11.1
Okayama	-46.1	-49.9	-50.9	-49.0	-44.8	-38.6	-35.8	-38.8	-39.1	-37.6	-33.8	3.8
Hiroshima	-37.8	-37.8	-43.8	-32.7	-35.1	-33.7	-45.1	-37.3	-21.3	-29.4	-23.9	5.5
Yamaguchi	-38.0	-47.0	-57.4	-49.1	-48.6	-39.3	-41.0	-38.9	-30.5	-30.4	-31.3	-0.9
Shikoku	-38.7	-42.3	-47.1	-42.1	-43.5	-40.7	-36.0	-36.6	-31.7	-30.7	-31.0	-0.3
Tokushima	-36.9	-44.4	-49.5	-42.3	-47.1	-45.9	-39.9	-39.0	-32.7	-30.6	-28.8	1.8
Kagawa	-40.6	-43.0	-44.7	-38.6	-34.9	-37.4	-32.9	-37.8	-25.1	-27.4	-30.1	-2.7
Ehime	-43.0	-46.3	-50.1	-48.2	-50.8	-44.5	-38.2	-43.3	-44.0	-36.8	-33.8	3.0
Kochi	-31.8	-32.1	-39.8	-40.4	-38.7	-31.2	-28.5	-22.5	-18.7	-26.1	-30.5	-4.4
Kyushu/Okinawa	-37.1	-40.6	-47.1	-38.9	-37.2	-37.1	-34.3	-34.1	-29.9	-28.4	-30.3	-1.9
Fukuoka	-37.6	-42.8	-50.5	-42.6	-41.1	-36.1	-34.4	-35.4	-28.9	-29.8	-32.0	-2.2
Saga	-43.3	-39.4	-47.9	-41.0	-37.6	-40.5	-39.3	-34.6	-35.0	-33.7	-31.3	2.4
Nagasaki	-40.5	-46.1	-55.3	-37.2	-42.1	-42.9	-40.8	-32.8	-35.6	-30.1	-32.7	-2.6
Kumamoto	-36.0	-42.0	-46.4	-41.7	-32.3	-31.1	-31.3	-21.7	-19.8	-21.0	-17.5	3.5
Oita	-39.5	-41.0	-48.4	-43.3	-42.6	-44.6	-37.4	-38.8	-35.8	-32.6	-34.4	-1.8
Miyazaki	-38.4	-49.1	-49.5	-38.5	-40.3	-34.3	-37.9	-51.8	-43.1	-32.2	-43.7	-11.5
Kagoshima	-39.8	-38.7	-45.2	-39.0	-32.7	-37.7	-30.5	-40.0	-27.5	-30.6	-26.4	4.2
Okinawa	-21.1	-24.2	-27.8	-24.4	-24.4	-27.9	-19.3	-15.2	-9.5	-13.6	-13.7	-0.1

Source: SME Agency and SMRJ, Survey on SME Business Conditions.

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(Chapter 2, Part I)

Naomi Kodama Senior Analyst for Industry Research in the Service Affairs Policy Division of the Commerce and Information Policy Bureau, METI

Tadayoshi Hiraki Planning and Coordination Chief, Structural Statistics Office, Research and Statistics Department, METI

(Sections 1 and 2, Chapter 1, Part II)

Hideaki Aoyama Professor, Graduate School of Science, Kyoto University

Hiroshi Ietomi Professor, Department of Physics, Faculty of Science, Niigata University

Yoshihisa Fujiwara Professor, Research Department, Graduate School of Simulation Studies, University of Hyogo

(Section 3, Chapter 1, Part II)

Ichiro Sakata Professor, Policy Alternatives Research Institute, The University of Tokyo

Junichiro Mori Assistant Professor, Graduate School of Engineering, The University of Tokyo

(Chapter 1, Part III)

Takehiko Yasuda Professor, Faculty of Economics, Toyo University

(Section 2, Chapter 2, Part III)

Tetsuro Shimono Manager, Industry Policy Division, Commerce, Industry and Labor Department, Ishikawa Prefecture

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