Support for Japanese SME Overseas Business Development

Purpose: Information
Submitted by: Japan
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Small and medium-sized enterprises and micro businesses (hereafter SMEs) make up 99.7% of all domestic enterprises and employ approximately 70% of the domestic workforce. Therefore, SMEs form the foundation of the Japanese economy.
Ordinary profits are currently at their highest levels since FY2010, indicating stable growth. The number of companies filing for bankruptcy has been decreasing for seven consecutive years.

Change in ordinary profits

Change in the number of bankrupted SMEs


Source: Bankruptcy Monthly Report, Tokyo Shoko Research, Ltd.
The ordinary profits of domestic SMEs are at historical highs. Along with a decrease in the number of bankrupted companies, the number of total operators has increased over the past decade.

However, the business environment for SMEs faces uncertainty due to a declining birthrate and declining labor force.

In part due to these headwinds, the number of domestic SMEs pursuing overseas business development has been increasing, pinning their business growth in international markets.

(Sources) Ministry of Economy, Trade and Industry “Census of Manufactures,” Ministry of Internal Affairs and Communications, Ministry of Economy, Trade and Industry “FY2012 Economic Census for Business Activity”; Re-edited
High economic growth is expected in the Asia Pacific region toward 2020. In Japan, the number of SMEs targeting overseas demand has been increasing through overseas business development. However, the percentage of SMEs that consider overseas business development “not important” remains high.

### SME Perceptions of Overseas Business Development

<table>
<thead>
<tr>
<th>Year</th>
<th>Us$ (Estimated value for 2020)</th>
<th>Source: IMF “World Economic Outlook, October 2015”</th>
</tr>
</thead>
<tbody>
<tr>
<td>90</td>
<td>0</td>
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<tr>
<td>00</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>0</td>
<td></td>
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<tr>
<td>20</td>
<td>0</td>
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*Estimated value for 2020.*

### Change in net GDP based on region (USD)

- **Other**
- **EU**
- **Central and South America**
- **USA**
- **India, NIEs, ASEAN5**
- **China**
- **Japan**

### Perception of SMEs about Importance of overseas business development

- **Important:** 19.7%
- **Not important:** 80.3%

(Source) “Questionnaires on growth and investment behavior in small and medium enterprises” commissioned by Small and Medium Enterprise Agency (December 2015, Teikoku Databank Co.)
Why do SMEs not Conduct Overseas Business Development?

- The main reasons SMEs consider overseas business development important but do not actually conduct it lies in insufficient information or know-how about international operations and deficiencies in human resources etc..
- Therefore, factors contributing to concerns about overseas business development are largely considered to be “within enterprise” reasons.

Main Reasons SMEs consider overseas business development important but actually do not conduct it (Top 5)
(Blue indicates enterprise-related reasons, and red recipient country-related reasons.)

- Lack of knowledge/information/know-how about international operations: 50.5%
- Cannot secure human resources that can address international operations: 45.2%
- Cannot secure partners/trading companies in recipient country: 32.3%
- Too occupied with domestic operation to consider it: 29.0%
- Cannot predict/evaluate the effects of investment: 19.4%

(n=93, multiple answers allowed)

Source: Teikoku Databank, Small and Medium Enterprise and Micro Business Development and Investment Activities Questionnaire Survey (December 2015), commissioned by SME Agency
The challenges for SMEs (manufacturers) actually conducting overseas business development lie primarily in issues concerning human resources/labor management, local legal systems and commercial practices, and quality control/delivery management etc..

These are considered to be mainly “within country”-related factors.

### Challenges for SMEs (manufacturers) with overseas business development (Top 5)

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Assurance of foreign human resources and labor management</td>
<td>52.6</td>
</tr>
<tr>
<td>Response to local legal systems and commercial practices</td>
<td>51.2</td>
</tr>
<tr>
<td>Quality assurance/delivery management</td>
<td>46.9</td>
</tr>
<tr>
<td>Risk associated with fluctuations in foreign exchange rates</td>
<td>45.5</td>
</tr>
<tr>
<td>Assurance and development of Japanese human resources that take initiative in overseas development</td>
<td>39.8</td>
</tr>
</tbody>
</table>

Source: Teikoku Databank, *Small and Medium Enterprise and Micro Business Development and Investment Activities Questionnaire Survey* (December 2015), commissioned by SME Agency
Support for Japanese SMEs toward Overseas Business Development

Japan’s Support

- The Government of Japan (GOJ) is implementing **elaborate, multi-layered, and seamless support** for SMEs planning overseas business development in each of the following phases: (1) Research, (2) Planning/Preparation, (3) Overseas Business Development, and (4) Business Stabilization/Expansion.
- More concretely, **the GOJ sets a series of support measures** such as collecting information on overseas business development, consultation/advice, F/S support, exhibitions/business meetings, and human resource development to address challenges facing SMEs.
- Moreover, the GOJ utilizes a holistic approach based on close cooperation with public and private support organizations, including the **Consortium for New Export Nation** and the **SME Overseas Business Support Platform**.

Targets by Japan

- The Government of Japan has placed a high priority on supporting SME growth and overseas business development, and set a target of realizing **10,000 new entrant SMEs** from FY2013 to FY2017 under the “Japan Revitalization Strategy” (Cabinet Decision on June 14, 2013).
  
  (*) Between FY2013 and FY2015 about **6,500 cumulative new entrants** have been realized.
Support Measures for SMEs toward Overseas Business Development

STEP 1 Collecting Information / Research
Clarifying objectives of overseas development
Gathering information for overseas development

STEP 2 Planning/Preparation
Domestic planning/preparation
Formulating business plan
Consultation with experts

STEP 3 Overseas Development
Finding overseas trading/business partners, etc.
Finding overseas partners (agencies, buyers, etc.)
Business discussions/contract negotiations
Contract closure/corporate registration

STEP 4 Business Stabilization/Expansion
Expanding overseas sales channels, establishing bases in recipient country
Sales channel expansion
Overseas investment

Product development

Overseas Development
Finding overseas trading/business partners, etc.

Sales channel expansion
Overseas investment

STEP 1
STEP 2
STEP 3
STEP 4

Consortium for New Export Nation (JETRO, etc.)

Information collection (consultation on trading investment, etc.)
(SME Support, JETRO)
Individual advice by overseas business experts (SME Support, JETRO)
Consulting before contract closure

Support to F/S
(SME Support)

Product development/formulation of strategies, etc.
(The Small and Medium Enterprise Agency)
Subsidies for continuation
(The Small and Medium Enterprise Agency)
Subsidies for manufacturing, commerce, and services
(The Small and Medium Enterprise Agency)

Support Measures for SMEs toward Overseas Business Development

Consultation for overseas development
Seminars (SME Support, JETRO)

Advice by coordinators through SME Overseas Business Support Platform (JETRO)

Information collection (consultation on trading investment, etc.)
(SME Support, JETRO)
Individual advice by overseas business experts (SME Support, JETRO)
Consulting before contract closure

Support to F/S
(SME Support)

Product development/formulation of strategies, etc.
(The Small and Medium Enterprise Agency)
Subsidies for continuation
(The Small and Medium Enterprise Agency)
Subsidies for manufacturing, commerce, and services
(The Small and Medium Enterprise Agency)

Advices on intellectual properties (Japan Patent Office, INPIT, etc.)

Fostering global human resources
(HIDA, SME Support)
Overseas internship for young workers
(HIDA, JETRO)
Support for business reorganization (SME Support)

Web matching (SME Support, JETRO)
Participation in overseas exhibitions (SME Support, JETRO)
Business meetings with overseas buyers (SME Support, JETRO)
Positive use of funds (Shoko Chukin Bank, Japan Finance Corporation)
Trade insurance (Nippon Export and Investment Insurance [NEXI])

Advices on intellectual properties (Japan Patent Office, INPIT, etc.)
The Government of Japan established the **Consortium for New Export Nation** to facilitate close “tie-ups” between the public and private sectors to realize support from experts for overseas business.

- **Meetings of Participants of Consortium for New Export Nation**
  - Close tie-ups among supporting organizations (one-stop contact point)
  - How to promote closer tie-ups in the future

- **Support by experts (hands-on)**
  - Support by experts in overseas businesses in various steps from technology development to market expansion

- **Support by experts (hands-on)**
  - Support overseas development of SMEs with the cooperation of supporting organizations

- **Support by experts (hands-on)**
  - Supporting organizations formulate and share plans for embodiment, including the setting of specific numerical goals on activity policies and main emphasis.

- **Support by experts (hands-on)**
  - Supporting organizations consider various possibilities and deepen mutual cooperation by examining how they can collaborate in main focus items.

- **Support by experts (hands-on)**
  - Review additional export promotion policies to be implemented.

Example of Support 1: for SMEs Planning Overseas Business Development
To support SMEs that have decided to conduct overseas business development, the Government of Japan established the **SME Overseas Business Support Platform** in cooperation with public and private support organizations in recipient countries where high levels of interest are expected for business expansion.

This platform provides comprehensive consultation services by arranging for and linking coordinators with knowledge of local markets and networks with local authorities and local companies.

**Example of Support 2: for SMEs Involved in Overseas Business Development**

- Germany (Dusseldorf)
- Indonesia (Jakarta, Surabaya)
- Philippines (Manila)
- Vietnam (Ho Chi Minh)
- Vietnam (Hanoi)
- India (Mumbai)
- Thailand (Bangkok)
- Bangladesh (Dhaka)
- Malaysia (Kuala Lumpur)
- Myanmar (Yangon)
- Northern China (Beijing, Tianjin)
- Eastern China (Shanghai)
- Western China (Chongqing, Chengdu)
- Southern China (Guangzhou, Shenzhen, Xiamen)
- US (San Francisco)
- Taiwan (Taipei)
- China (Hong Kong)
- Mexico (Bajio, Mexico City)
- Brazil (São Paulo)
- Cambodia (Phnom Penh)
- Vietnam (Ho Chi Minh)
- Japan (Hida)
- Local government offices
- Diplomatic missions
- Japanese chambers of commerce
- Financial institutions
- Consultants
- Legal/accounting firms
- Temping agency
- JICA
- JETRO International offices
- Platform image diagram

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Case 1: Green SME Involved in Overseas Business Development

Manufacturer of various food industry-related paper products such as paper napkins and kitchen paper.
- contributes to **protecting forestry resources by using residue of sugar cane (bagasse)** generated in high volume in the process of sugar production and **proactively using reeds that are widely grown in the recipient countries**, 
- uses bagasse, which is softer than timbers, **realizes energy saving during the paper-making process**, 
- produces paper products **by using recycled materials (e.g. milk cartons)**, while 3 billion milk carton sheets are produced annually in Japan, 
- has built seven factories in China and one office in Korea, and is planning to establish a registered corporation in Thailand, and 
- developed and operates EC websites internally for selling industry-related products.
Case 2: Green SME Involved in Overseas Business Development

A developer and manufacturer of special-purpose papers with diverse functions, including insulation properties

- produces paper products with excellent materials in line with the trend of seeking weight reduction and economic efficiency of components and tools, so there has been development/production of special-purpose paper for diverse applications,
- has adopted a traditional Japanese paper manufacturing method called “nagashi-suki”,
- succeeded in manufacturing paper with synthetic fibers for the first time in the world in 1958,
- developed and commercialized in functional paper through the proactive use of characteristics of non-timber fiber "Kenaf“, and
- established the first Japanese paper mill in China and developed borderless overseas strategies to address contemporary needs such as technical partnership with US companies.
Conclusion: for SMEs’ Participation into the Global Value Chain

- Amidst expanding international business markets, it is necessary for SMEs to create favorable business cycles through conducting proactive overseas development and investing their profits for future growth.

- It is also important for each APEC economy to promote active SME participation in the global value chain (GVC) through a series of measures aimed at alleviating challenges facing SMEs conducting overseas business development, such as improving infrastructure, legal systems and business practices, protecting intellectual property, and preventing technology outflow.