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What are the SME Policies and Measures in Japan? : The Outline of SME Promotion Policies in Japan *

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I. Introduction

SMEs have far more importance among enterprises in Japan compared with other developed countries. SMEs are widely expected to play an important role in economic development and lives of the citizens. Concrete and abundant political assistance has long been offered for SMEs, especially in postwar Japan. It is well known worldwide that various assistance menus are available for SMEs.

However not only is the system / content complicated but also there are a number of diverse agencies which offer assistance. It is far from easy to comprehend the roles of each agency. Furthermore, despite the concrete and abundant assistance menus, they are not generally well known to their objects, SMEs in Japan. (Example, SEKI [2004], HONDA [2006], etc.) Though careful discussion is required how we should think about the fact that SME's policies and measures in Japan are not well known to the users, one of the reasons may be that there are not very many which describe the system and content of such policies and measures in simple terms. This paper aims to explain the true picture of SME policies and measures especially in postwar Japan in the most simple possible terms and tries to explain the system and contents. That is the purpose of this paper.

This paper consists of the following: Section II describes the outline of the position of SME policies and measures in the policy system in

Japan. Following section III describes the outline of history of SME's policies and measures in postwar Japan. Chapter IV is the conclusion.

II. Positioning

This chapter describes the outline of position of SME's policies and measures in the policy system in Japan.

First, what are the SME policies? No doubt they are policies meant specifically for SMEs. The definition of SME determined in the Small and Medium Enterprises Basic Law which was established in 1963 and went through complete modification in 1999. Only the quantitative index (number of employees /capital amount) is adopted in Japan, and the definition is established for each of the four industries; manufacturing, wholesale, retail, and service.

One of the policy main bodies to implement SME policies is Small and Medium Enterprise Agency of the central government. In the national administrative organization, the Small and Medium Enterprise Agency is an outside agency of the Ministry of Economy, Trade and Industry (METI) as of the time of its establishment. METI and Small and Medium Enterprise Agency themselves are in Kasumigaseki, Tokyo, and there are 8 Regional Bureaus of Economy, Trade and Industry to control the regional blocks (Hokkaido, Tohoku, Kanto, Chubu, Kinki, Chugoku, Shikoku and Kyushu) as well as the Okinawa General Bureau. The Organization for Small and Medium

Enterprises and Regional Innovation, Japan (SMRJ) is a fairly similar organization to control regional blocks. There is no Hokuriku Regional Bureau of Economy, Trade and Industry. Japan SMRJ was established when the Small and Medium Enterprise Corporation (established by a merger in October, 1980, between the Small and Medium Enterprise Promotion Corporation, est. in August, 1967 and the Small and Medium Enterprise Mutual Aid Corporation, est. in April, 1978), the Small Business Credit Insurance Corporation, est. in July, 1958, and the Textile Industry Structural Improvement Corporate Association, est. in June, 1994 merged into one in July, 1999, with further addition of the Japan Regional Development Corporation and Industrial Structure Improvement Fund in 2004. Basically, policy implementation main body as Small and Medium Enterprise Agency is Regional Bureau of Economy, Trade and Industry and SMRJ.

Another policy main body consists of prefectures, municipalities, and special districts (Tokyo 23 Districts). Prefectures tend to take on the policies of central government. Many of the SME policies are made by the national government and are taken on by the prefectures. Also the municipalities have taken on the policies of the prefectures. In other words, it is a structure of Small and Medium Enterprise Agency (Regional Bureaus, SMRJ) → prefectures → municipalities. The economy department and commerce, industry and labor department in prefectures and municipalities are in charge of SME assistance and formulate policies. However, local governments are obligated to make individual SME policies in recent years, therefore, some local governments make their own SME's policies/assistance.

By the way, SME Support Centers are placed in prefectures and government ordinance cities as an organization to promote SME support projects done by central government, prefectures and SMRJ. The center is based on

Small and Medium Enterprise Support Law established in 1963.

Also there are various organizations to promote SME support projects such as the Chamber of Commerce and Industry, Societies of Commerce and Industry, Federation of Small Business Associations, government finance institutions and Federation of Credit Guarantee Corporations, etc.

Small and Medium Enterprise Agency (Regional Bureaus, SMRJ) consider the support level for SMEs in three patterns; regional blocks, prefectures and local communities. SMRJ controls regional block level, SME Support Centers in prefectures, etc, control prefecture level, and local SME Support Centers established in Chamber of Commerce and Industry control local communities. For each support system, the proper level of organization is examined and divided ¹⁾.

The budget for SME policies established by the central government belongs, in addition to Regional Bureaus of Economy, Trade and Industry, to Ministry of Finance and Ministry of Health, Labour and Welfare as SME measure budget. However, the ratio of SME measure budget is not large in the general budget despite the high relative weight of SME in Japan and the awareness of their roles and importance, which will be described later.

III. History²⁾

This section outlines the history of SME policies and measures in postwar Japan. A period of approx. 60 years, from the 1940s to the 2000s, is divided by the unit of decade with the exception of the 1990s and 2000s when the policy direction made a drastic change with the modification of Small and Medium Enterprise Basic Law in 1999 to show the history of this change.

1. 1940s

It was not until the Financial Panic of 1927 (Showa Panic) that political assistance for SME in Japan was specifically developed for the first time. The hardship suffered by small and medium commerce and industry in agricultural and urban areas became problematic, and financial assistance became urgent business, leading SME to be the policy agenda for the first time.

The Japanese government accepted the Potsdam Declaration in August, 1945. After that, economic recovery in Japan was conducted under the GHQ rules. In concrete terms, various measures based on economic democratization and anti-monopoly doctrine were taken including dissolution of big financial combines and land distribution. SMEs quickly achieved the transformation from military industry to private, and gathered expectation for their role. However, SMEs had serious difficulties in obtaining their financial and material resources, therefore they came to receive political assistance.

The GHQ tried to develop SME assistance based on economy democratization and anti-monopoly doctrine. However, the Japanese government tried to make SME promotion guidelines based on priority industries promotion strategy by priority production system under the Yoshida Cabinet in December, 1946. This priority production system is a policy in which distribution of limited resources and finance is determined by policies to accelerate industrial growth. It was also called the priority industries (key industries) recovery strategy. Coal and steel production was given priority, together with designation of food/fertilizer, electricity, ship building/maritime transport, etc. Excessive funds were poured into priority industries, resulting in more serious problems for SMEs in obtaining financial and material resources (SME problems). This would develop into a public movement by SME organizations

such as AJSMIA (All Japan Small and Medium Industry Association, which later changed its name from "Industry" to "Enterprise"), etc.

Thanks to the fact that the SME policy section in GHQ was "Economic Science Dept Anti-Trust Cartel Section", "Basic idea concerning SME policies was protecting SME as a foundation of democracy and counterforce against monopoly." The "Small and Medium Enterprise Measures Prospectus" which clearly stated economic democratization/anti-monopoly doctrine was determined. "Small and Medium Enterprise General Agency" was established, and later "Small and Medium Enterprise Agency Establishment Law" (Law No. 83) was established on July 2, 1948. This Small and Medium Enterprise Establishment Law said "We should consider that healthy independent SME help to keep the national economy healthy and become developed, prevent concentration of economic force, as well as securing the opportunity for fair business activities. Therefore the purpose of this law is to nurture, and develop small and medium enterprises, and at the same time, to secure various conditions for their business to improve." (Article 1 (Purpose of the Law)) The following Article 2 describes the establishment, "base on National Government Organization Law, Small and Medium Enterprise Agency is established as an outside agency of Ministry of International Trade and Industry."

SME went into excessive competition due to the conversion of large enterprises to private industry and the slowing down of postwar demand increase in 1947. In addition, the market rapidly shrunk because of the Dodge Line, a deflationary policy, and SMEs suffered from shortage of funding. These increased the necessity for policy assistance by the government for SMEs facing funding shortage, resulting in improvement of SME measures (fundamental measures) described in the following. One was the Small and Medium Enterprise Management Consultant System.

Another was a financial measure. Specifically, the National Finance Corporation Law was established in May, 1949, followed by the establishment of the Small and Medium-sized Enterprise Cooperative Association Act in June of the same year, paving the way for loans for SME. And the third is organizing measure. In practice, the Commerce and Industry Cooperative Law was prepared in November, 1946.

2. 1950s

A special source of demand was created when Korean War broke out in June, 1950, increasing exports rapidly. Along with this, mining and manufacturing industrial production increased, expanding production. From then on, economic democratization policy started regressing when the GHQ accepted Japanese government's reviewing of democratization laws. To put it specifically, in those days, the cartel toleration view was prevailed due to the reactionary depression after the Korean War boon, cartels excluded from the application of Anti-Monopoly Law were emerged, and legislative autonomy was established. Along with such circumstances, the Anti-Monopoly Law was modified partially in September, 1953, resulting in the approval of depression cartel and rationalization cartel. Also at this time, the Credit Guarantee Corporation Law was established in August, 1953, smoothing the finance of SMEs. (As for the Credit Guarantee Corporation itself, the Tokyo Credit Guarantee Corporation in 1937 was its forerunner. The Corporation was established in Kyoto, then in Osaka. It was established all over Japan after the "Small and Medium Enterprise Financial Measures Prospectus" was ratified by the Cabinet in 1948.)

Later, various measures were prepared in order for full scale industry protection and industry development, leading to so-called heavy and chemical industry emphasized assistance including introduction of foreign

technology and rationalization investment. Specifically, the "5-Year Plan for Economic Independence" was worked out in December, 1955, in which achieving perfect employment and improvement of industrial structure were positioned as policy goals. The reasons are listed as follows: First, unemployment caused by an excessive labor force was becoming a problem and economic independence, in place of dependence on the special demand, was urgent business (reinforcing export force). Second, the postwar excessive labor force was mainly absorbed in SME and agriculture and existed as imperfect employment of low income, low salary and short working time (not perfect employment but "all employment"). Third, a "Double structure" existed where modernized big enterprises and small enterprises by premodern labor-management relations and minute enterprises by family management as well as agriculture existed both extremities with less relative weight in the middle³⁾. It was considered that "all employment" was created because the labor force excluded from the modern section would rush to premodern section regardless of income. Originally, the double structure problem meant employment problem, however, the premodern nature of technology to lower salaries became the problem (Aging facility, low productivity and excessive competition among SMEs were the obstacle for improving quality of export products). The image was SME = bottom line of double structure (economic main body containing problems). It was SME modernization that was considered to solve the double structure, and the following two SME modernization measures (industrial structure policy) were adopted. One was rationalization policy per industrial category, namely "Machine Promotion Law (Law of Temporary Measures for Promotion of Machine Industry)" established in June, 1956, and "Electronics Promotion Law (Law of Temporary Measures

for Promotion of Specific Electronic Industry and Specific Machine Industry)” established in June, 1957. Measures conducted in big enterprises were penetrating SMEs “as well”. Another was facility modernization policy. The “Small and Medium Enterprise Promotion Fund Assistance Law” (“Communal Facility Grant” and “Small and Medium Enterprise Facility Modernization Grant”) were established in May, 1956. Unfairness correction measures were reinforced together with modernization. This was to correct excessive competition among SMEs and pressure by big enterprises.¹⁾ As for competition limiting unfairness correction, there were the “Small and Medium Enterprise Organization Law” (The commercial and industrial association system was established and the government ordered outsiders to join the association) established in November, 1957, and the “Department Store Law” (Approval was required for new building and enlargement) established in May, 1956, etc. Another policy was competitive policy unfairness correction policy. The “Subcontract Payment Law (the Law on the Prevention of Delay in the Payment of Subcontracting Charges and Related Matters)” was established in January, 1956, complementing the Anti-Monopoly Law.

3. 1960s

Transition to an open economy system, international competitiveness reinforcement, and industrial structure improvement with the effort of official and private sectors as one were promoted at the end of 1950s. To the striking expansion of export from Japan, heightened requests for import liberalization came from many countries, and the “Trade Foreign Exchange Liberalization Plan Prospectus” was decided by the Cabinet in June, 1960. After this, the “New Industrial System Theory” / “Industry Restructuring Theory” became rampant to reinforce the international competitiveness of Japanese industry.

The “New Industrial System Theory” has the following characteristics. First, nurture industries with high income elasticity of demand and productivity growth rate as the core. Income elasticity of demand shows how much demand will increase when income is increased by one unit. It was the machine industry which was chosen as an industry with both income elasticity and productivity growth rate. Second, economies of scale by oligopoly (scale merit) were pursued. Third, active government involvement is encouraged. This was called “official and private cooperation”, and later became a feature of industrial policy in Japan, especially attracting attention from many countries in the 1980s. Fourth, various policies concerning trade, finance, labor and SME are used as methods to achieve “industrial structure improvement”. Industrial structure improvement was positioned as a so-called ultimate goal of various policies in Japan. To this, the “Industry Restructuring Theory” is for promoting expansion of heavy and chemical industries. We can say the basic attitude of new industrial system theory is about the same. For example, Yahata Iron and Steel and Fuji Iron and Steel merged in 1970. The theory logically supported a rampant large scale merger to bring about industrial restructuring.

Taking these into consideration, the law improvement proceeded for securing “new industrial system” in the process of establishing the Small and Medium Enterprise Basic law. The movement was especially visible in establishing the “Specific Industries Promotion Law”. However, various economic organizations displayed apprehension about the establishment of this law. In other words, they were afraid of reinforcement/expansion of “official control” by the administration to the industries. At this time, establishment of the Small and Medium Enterprise Basic Law was conducted simultaneously. There was an understanding that both the “Specific Industries Promotion

Law” and Small and Medium Enterprise Basic Law would secure the role of big enterprises and SMEs, and promise assistance for them along with the industrial structure improvement with the aim of international competitiveness enhancement of the Japanese industries. (OBAYASHI [2003] p.49)⁴⁾. The Specific Industries Promotion Law ended up being abandoned, however, establishment of Small and Medium Enterprise Basic Law was promoted. “Gap correction” between big enterprises and SMEs was left to industrial structure advancement and international competitiveness reinforcement.

So the Small and Medium Enterprise Basic Law was promulgated and went into effect in July, 1963. The Introduction of the Small and Medium Enterprise Basic Law states as the following; “(omitted) as well as correct the disadvantage of SMEs due to economic and social restriction, SMEs…to help their independent efforts, and to plan their growth and development is to respond to the mission of SMEs…to advance the industrial structure and reinforce international competitiveness of industries to achieve balanced growth and development of national economy.” (Omission made by the author). Here, “correcting disadvantage” means “correcting various gaps among enterprises” which was mentioned in Article 1. There are two key basic goals in the Basic Law. One is advancement of SME (Chapter II). In concrete terms, there are 1) facility modernization, 2) technology improvement, 3) management rationalization, 4) appropriation of company size, 5) organization improvement for joint business, 6) modernization of commercial and service industries, 7) business conversion, and 8) various policies for labor, employment and training. Another basic goal is correcting disadvantage in business activities (Chapter III). Specifically, there are 1) prevention of excessive competition, 2) appropriation of subcontract

business, 3) securing fair opportunity for business activities, 4) securing opportunities for official demand, etc. The former SME advancement was especially emphasized, and more than others, “appropriate scale and intensification (merger, collaboration, cooperation, grouping)” for 1)-6) goals were emphasized and concrete measures were developed. However, not many concrete measures were developed for others.

There are two pillars for measures to advance appropriate scale and intensification. One is “Small and Medium Enterprise Modernization Promotion Law (Modernization Promotion Law)” (promulgated in March, 1964, enacted in April), and the other is the “Small and Medium Enterprise Advancement Financial System” which helps intensification in financial aspect. Modernization Promotion Law designates industries to actualize industrial structure improvement and international competitiveness reinforcement, decide goals such as appropriation of scale, etc, and assist SMEs which conduct investment that suits decided goal, in the financial aspect. In the beginning, however, intensification did not progress because it favored an individual enterprise base. Therefore, “Structure Improvement Business System” was created to advance industry-wide mergers, collaboration, cooperation and grouping of SME. It was accepted that intensification of individual SME would advance if there was an industry-wide promotion system such as commercial and industrial association per industry. We can say it was a “full scale modernization measure per industry”, grasping SMEs as an industrial group. On the other hand, the Small and Medium Enterprise Advancement Financial System was a complement and expansion to the Small and Medium Enterprise Promotion Fund Assistance Law (May, 1956), and it was modified in 1961 to include joint facility business and organized business such as factories, etc, (factory complex construction) of

SME association for grant. Furthermore, it was again modified in 1963 to include enterprise joint business (merger), retail stores collaboration business (assembled department store), wholesale store organizing business (wholesale complex construction) for grant, and the name was changed to the “Small and Medium Enterprise Modernization Fund Assistance Law” and the grant for these was called the “Small and Medium Enterprise Advancement Fund”. In addition, the Small Business Promotion Corporation (now the organization has been restructured to become the Organization for Small & Medium Enterprises and Regional Innovation⁵⁾ was established in 1967 as a promoter of the Advancement Financial System, composing a structure of corporation → additional funding from prefectures → loan to SME associations, etc.

As for disadvantage correction at this time, it was considered that correcting the productivity gap between big enterprises and SMEs would be achieved by “structure improvement”, so it was seldom implemented systematically. Along with the establishment of the Small and Medium Enterprise Basic Law, there was no particular new movement for disadvantage correction measures, and disadvantage correction measure stuck to “supplementary position” to improve SME business/competition environment for “structure improvement”. Activation of disadvantage correction measures did not happen until after the 1970s. Of course, at a time of depression, reinforcement and modification of the “Subcontract Payment Law” was conducted and the Law on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium Enterprises was established in June, 1966.

As for the Small and Medium Enterprise Basic Law established in 1963, critics say “It played a role to combine various measures which had been searched for and tried since 1945 in “industrial policy” logic.” (TERAOKA [1997

p.25)”, It established “Industrial Structure Policy Type Small and Medium Enterprise Policy” (KUROSE [2006]), etc. Small and Medium Enterprise Basic Law made SME policies method to achieve the goal of actualizing industrial structure improvement and international competitiveness reinforcement, and basic measures were mobilized by it.

4. 1970s

Advanced economic growth was actualized accompanying heavy and chemical industrialization in 1960s, and active equipment investment promotion and productivity improvement was observed in SMEs. However, the Nixon Shock in 1971 (dollar and gold exchange termination) and later transition to the floating exchange-rate system, and the oil shocks which happened twice in 1973 revealed SME’s excessive productivity, and many SMEs had no choice but to file for bankruptcy together with the big depression of the following year (“modernized bankruptcy”). These exposed the dead-end of industrial structure policy for international competitiveness reinforcement of heavy and chemical industries. Also there were new problems such as saturation of consumer durables, Japan-US trade friction, pollution, etc.

Reaching these new aspects, the government came up with a vision, and measures based on this vision started to develop. The “Industrial Structure Vision in the 1970s” (May, 1971) described industrial policies (industrial structure policies) in the 1970s. “Knowledge intensification” came out as a key word in this. Following this, the “Small and Medium Enterprise Vision in the 1970s” (August, 1972) came out. It clearly spoke of promoting conversion of SME policies for “responding to demand for sophistication/diversification and promoting international division of labor”, and, in order to realize such goals, “measures in soft aspects rather than rationalization in SME production” were also promoted. Thus SME’s

policies in Japan decided SME's policies vision upon receiving industrial policies vision, and started to design concrete measures.. A similar process was adopted in the 1980s and 1990s (KUWAHARA [2006] p.59).

“Knowledge intensification” is “increasing the ratio of industries with higher invested intellectual labor”. Intellectuality intensified industry is positioned to be the leading industry. In concrete terms, there are the research and development intensified industry, the advanced level assembly industry, the fashion industry, and the knowledge industry, etc. Especially the IC industry and computer industry, both research and development intensified industry, became the object of emphasized development, and nurturing measures for electronic/information industry were improved in industrial policies. Specifically, the “Machine and Electronics Law (Law of Temporary Measures for Promotion of Specific Electronic Industry and Specific Machine Industry)” (Machine Promotion Law and Electronics Promotion Law) were implemented in April, 1971, and the “Law of Temporary Measures for Promotion of Specific Machine Information Industry” (SMEs in charge of machinery + electronics + knowledge intensified industry) was implemented in July, 1978.

Upon this, knowledge intensification was aimed in SME policies, and the following three measures were developed. First was knowledge intensified cooperative business. It was incorporated in the Advancement Financial System, and assistance was offered in the unit of commercial and industrial associations. Also the “Producing Place Law (Law of Temporary Measures for Small and Medium Enterprises in Producing Place)” (implemented in July, 1979) was established. This was for assisting development of new products/new technology of producing place associations. Second was the “Business Conversion Law (Temporary Law concerning Measures for Changing Business for

Specific Small and Medium Enterprises)” (implemented in December, 1976). In particular, the textile industry was targeted. Third was the information supplying business (1973). The Information Center for Small and Medium Enterprises was set up in the Small Business Promotion Corporation. Critics say such knowledge intensification measures had no effect (KUROSE [2006]). First, as for knowledge intensified cooperative business and “Producing Place Law”, it was beyond the ability of commercial and industrial associations and producing place associations to set and implement research and development themes in the first place. In fact, the number of implementations was 45 in FY1973 - FY1980, and as few as 16 in FY1981 - FY1990. Second, as for the Business Conversion Law, shrinking existing business to half and converted new business had to be more than half in order to obtain approval from the prefectures. Until “New Temporary Law concerning Measures for Changing Business for Specific Small and Medium Enterprises” whose ratio of new business was decreased from half to one third in 1986, the number of the approved was only 293 (of which 132 manufacturing). Third, as for information supplying business, available information was not directly useful for SME management.

Thus, there were many problems in knowledge intensification measures. Moreover, the following two measures were newly developed without scrapping measures to respond to industry growth in the idea of traditional “scale appropriation and intensification”. One was “Subcontract Small and Medium Enterprise Promotion Law (Subcontract Promotion Law)” (implemented in December, 1970) as a measure for subcontracting enterprises. This was to promote modernization of subcontracting enterprises based on Subcontracting Small and Medium Enterprises Promotion Business Plan (made by

subcontract business association by cooperation of parent companies). The other was measures for small and medium commercial industry. There were the "Retail Promotion Law (Small and Medium Retail Industry Promotion Law)" (shopping street modernization, joint store construction) implemented in September, 1973, and "Large Store Law" implemented in March, 1974, etc. Also as a protective measure for the depression of 1974, there were the "Mutual Aid Law to Prevent Small and Medium Enterprises from Bankruptcy" (implemented in December, 1977) and the "Castle Town Law (Law of Temporary Measures for Small and Medium Enterprises in Specific Depressed Area)" (implemented in November, 1978), as well as the "Large Store Law" (implemented in March, 1974) and the "Field Adjustment Law" (implemented in September, 1977) (to adjust big enterprises from advancing into the small and medium enterprise field) as a competition restrictive disadvantage correcting measure.

Competitive policy type disadvantage correction measures were not reinforced. Though the Anti-monopoly Law was reinforced and modified in 1977, the number of violations of the Subcontract Payment Law increased.

5. 1980s

Production declined in the depression of 1974 and 1975, however, cost cutting was pursued in core industries (automobile industry, electronics related equipment industry) by retrenchment and ME (microelectronics) utilization, resulting in increased export to the U.S, Southeast Asia, etc. Trade friction was caused especially in the trade with the U.S. Industrial policy vision was settled in the 1980s just like in the 1970s. This was "International Policy Vision in the 1980s" (March, 1980). Going through Japan-U.S. trade friction, it was clearly stated that import expansion and "creative knowledge intensification", which would not internationally compete, would be promoted (industry

nurturing), and that industrial adjustment (shrinking specific industrial field, conversion to other industrial field) would be assisted. Responding to this, "Small and Medium Enterprise Vision in the 1980s" (July, 1980) came out as SME policy vision, and the following measures were developed. 1) Enrichment measure of soft management resources, 2) Measures in the regional viewpoint, added by 3) Measures to promote expansion into new field, and 4) Cross-industrial exchange measure.

First of all, 1) "Enrichment measure of soft management resources" means "creative knowledge intensification", i.e., advancement of knowledge intensification. Concrete measures were developed in technical, human resources and information aspects. First in technical aspect, technology development plans in advanced high technology field such as electronics, new material and bio, etc, were approved on "Technology Law (Law of Temporary Measures for Technology Development Promotion for Small and Medium Enterprises)" (implemented in July, 1985). Such measures were taken as assisting technology development fund or partial exempting taxation of test and research expenses. Next, in the information aspect, the software advisory business (Regional Information Centers for Small and Medium Enterprises as its core) was conducted with dispatched specialists. Finally, in the human resource aspect, the Institute for Small Business Management and Technology was opened, and training for SME managers was held (initially in Tokyo and Osaka, later expanded to 9 locations throughout Japan).

Next, 2) "Measures in the regional viewpoint" means promoting the producing place (local industry) and specific regions (depressed region: castle town). In the 1970s, designation of regions was conducted for industries such as "Traditional Products Law (Law concerning Promotion of Traditional Craft Products)" (May, 1974). "Producing Place Law" (July, 1979) in

the 1970s. However, the feature after 1980s is that the measures regarded SME as regional industrial group. Specifically, one is measures for General Promotion of Local Industry (FY1981). Assistance is given by the national government to the promotion measures conducted by local industry association based on local industry promotion vision made by the governors of prefectures. Construction of Local Industry Promotion Center was its showpiece. Another one was the "New Castle Town Law" (1983). This was evolved from the "Castle Town Law" (implemented in November, 1978), and became the "Temporary Law concerning Measures for Small and Medium Enterprises of Specific Regions" (implemented in December, 1986) after merging with the "Producing Place Law". Assistance is given to SMEs going into new fields regardless of the industrial category from the viewpoint of regional promotion.

And with 3) Measures to promote expansion into new field, assistance in going into new field was given to SMEs who faced shrinking markets due to the rapid decrease of export (import) of SME products caused by the rapid increase in the value of the yen. Originally, the Business Conversion Law (implemented in December, 1976) had been established, which was re-established as "New Business Conversion Law" (implemented in February, 1986). Its feature was to combine various concepts such as business diversification, product sophistication / adding value, new product/new technology development, and expansion into foreign markets, etc, besides business conversion into one under the notion of "expansion into new field". Conversion ratio was decreased from half to one third. Expansion into new field was planned in the aforementioned the "Temporary Law concerning Measures for Small and Medium Enterprises of Specific Regions". Furthermore, assistance was developed for activation of expansion into foreign markets (overseas investment advisor business, overseas

direct investment fund loan system, etc.).

Finally, 4) Cross-industrial exchange measure. Cross-industrial exchange began gaining attention in mid 1970s, but they say concrete measures did not begin until "Technical exchange plaza business" (FY1981) which offered a place of exchange for SMEs in different industries. Also the "Merger Law" (implemented in April, 1988) aimed for merger of knowledge and know-how among SME in different industries. Assistance classified by levels of "exchange" → "development" → "starting business" → "market development" was developed. Financial assistance and tax preferential treatment were given especially for "development". At least 700 groups, as many as 20,000 enterprises participated as of May, 1987, marking a huge success.

Also measures for assisting start-ups and start of new business developed in the 1980s. It started when "Venture Enterprise Center (VEC)" was established under the jurisdiction of MITI Machine Information Industry Bureau (later transferred to Industrial Policy Bureau in 1994) in 1975. This would guarantee debt payment of unsecured loan concerning research and development fund, and enterprising fund to the financial institutions, however, business size was small. It started to develop in full force after the Plaza Agreement. Specifically, the following measures were taken; 1) Business Incubator (assistance for establishment based on "Private Activation Law" (implemented in May, 1986), mainly the Third sector by cooperation between the private sector and local government), and 2) the "New Business Law" (Industrial Policy Bureau, implemented in December, 1989).

6. 1990s, 2000s

The main goal of industrial structure policies in the 1960s was industry nurturing, however, the industry adjustment function started to kick in during the 1970s, and industry adjustment became the main goal of industrial structure

policy along with industry nurturing. Furthermore, in the late 1980s SME policies became “industry adjustment type SME policies” (KUROSE [2006] p.191). The awareness changed that SMEs adopting environmental change was more important than “correcting the gap” from big enterprises. Gap correction, which was originally the central pillar of SME policies, disappeared, and “appropriation of scale and intensification” did not keep pace with the time. Thus the basic structure of the Small and Medium Enterprise Basic Law started to collapse.

There was a change in the industrial policy vision. In the “International Trade and Industry Policy Vision in the 1990s” (1990), industrial policy vision which came out in the 1990s, there was no such goal as “knowledge intensification” of 1970s or “creative knowledge intensification” of 1980s. The only slogan it had was “actualization of a flexible and powerful industrial structure”. Some thought “Instead of holding a specific vision and guiding enterprises to go there, emphasis is on the removal of restrictive factors such as various regulations, various customs, and technical restrictions, etc. to promote innovation by suppliers.” (by MITI, with partial omission.) In addition, another characteristic in the 1990s was the penetration of recognition that technology innovation would reveal hidden demand. The consensus of international trade and industry policy, science and technology policy and competition policy went closer to competition policy because they would “grapple with forming efficient market based on self responsibility principle”. Specifically, start-ups and start of new business in collaboration between industry and academia was promoted. The “Science and Technology Basic Law” (implemented in November, 1995), “Science and Technology Basic Plan” (1996) based on the law, and assistance for venture business coming from universities (“Act on the Promotion of Technology Transfer from

Universities to Private Industry”, etc.) were developed, followed by the industrial cluster plan (lead by Regional Bureaus of Economy, Trade and Industry) (FY2001)/intellectual cluster creation business (by Ministry of Education, Culture, Sports, Science and Technology, lead by local governments) (FY2002). However, the successful result of collaboration between industry and academia could not be found, so “Enterprise structure adjustment” was promoted after going through the financial crisis of 1997 and 1998. Specifically, “selection and concentration” of enterprises was promoted by the “Act on Special Measures for Industrial Revitalization” (1999), etc. (Later, it was modified and the Chamber of Commerce and Industry and Societies of Commerce and Industry became the Small and Medium Enterprise Rehabilitation Support Business Agency.)

Because of the industrial policy vision, SME policies became competition policies, too. The “Small and medium enterprises in charge of competition” was positioned as the first role expected of SMEs in “Small and Medium Enterprise Policy Vision in the 1990s” (June, 1990), and industry adjustment adoption measures for SMEs were developed. Specifically, there was 1) the “Temporary Law concerning Measures for Smooth Adaptation to Structural Changes in Economy by Advancement of Specific Small and Medium Enterprises to New Fields, etc” (implemented in November, 1993). This was established and implemented when “New Business Conversion Law” expired in April, 1993, and field limitation was relaxed (manufacturing + printing/software, etc.). Also the “Temporary Law concerning Measures for Smooth Adaptation to Structural Changes in Economy by Advancement of Specific Small and Medium Enterprises to New Fields, etc” was reformed and 2) the “Law on Supporting Business Innovation of Small and Medium Enterprises” (implemented in July, 1999) came

out. This assistance was for not only for expansion into new field but all business innovation. Enterprises made plans for business innovation and governors of prefectures gave approval. It was featured that no special novelty was required at the approval. Along with the establishment of Law on Supporting Business Innovation of Small and Medium Enterprises, the “Modernization Promotion Law” was abandoned.

Also assistance measures for start-ups and expansion into new field were expanded. Specifically, 1) There was the “Temporary Law Concerning Measures for the Promotion of the Creative Business Activities of Small and Medium Enterprises (Creation Law)” (April, 1995). Under this law, SME manager and individuals make research and development business plans and governors of prefectures give approval. (The difference from the “Law on Supporting Business Innovation of Small and Medium Enterprises” is that it should a new technology development that no enterprise had ever done, and plans of individuals who are going to start business are also included.) When this law was established, the “Technology Law” and “Merger Law” were abandoned. 2) In the “New Business Creation Promotion Law” (implemented in February, 1999), assistance for individuals and enterprises in the middle of business creation was emphasized. 3) Financial assistance system was expanded. Venture fund (Venture capital by the funding of national SME corporation advancement business + prefectures) and Limited Partnership System for Investment Business (November, 1988) were organized. 4) For others, support for establishment of incubation facility or incubator, and Collaborative Research Project by Regional Industry, Academia, and Government as a measure to support industry-academia collaboration were developed, while “Small and Medium Enterprise Labor Security Law” (implemented in August, 1991) and

entrepreneur development business (“Business Creating Seminar”, etc.) as securing human resources was developed.

As opposed to these competition policy measures, protective measures reversing the principle were activated, too. This is another characteristic from the 1990s. In response to drastic structural change of economy in the 1990s, management stability measures for SMEs were taken, and became pillars of SME’s policies together with structural reform measures (business innovation, start-ups and expansion into new field, etc.). As for the core of management stability measures, “Small and Medium Enterprise Finance Stabilizing Special Guarantee” was created as a bulwark against credit crunch since October, 1998. (Later systemized as “Safety Net Loan System”) And bankruptcy related guarantee was expanded for SME credit guarantee system (Safety Net Guarantee).

Also adopting measures in regional unit seen in the 1980s were expanded. Specifically, it was industry accumulation assistance whose targeting group is changed from “industry” (Modernization Promotion Law) to “Industry accumulation”. When the “Temporary Law concerning Measures for Small and Medium Enterprises of Specific Regions” expired in December, 1991, “Small and Medium Enterprise Accumulation Activation Law” was established to succeed it in October, 1992. It was an adopting measure for structural change, however, accumulation location of machine industry in big cities was not included in the target due to the effect of industrial location policy. Later, the “Act on Temporary Measures for Activation of Specific Regional Industrial Agglomerations” (June, 1997) was established as a law with “Infrastructural Technology Industry Accumulation” added for assistance. In this, accumulation location in big cities was included as a goal due to progress of factory transfer to local region and hollowing of industry

accumulation in metropolitan areas. Specifically, accumulation of enterprises with infrastructural technology to support manufacturing in Japan such as die and foundry was designated as A accumulation, while accumulation of local SMEs such as in producing land and business castle town was designated as B accumulation. Prefectures made activation plans, and the national government gave approval.⁶⁾

As for others, “3 Laws for Town Building”, general term for the three laws of the “Law concerning the Measures by Large-Scale Retail Stores for Preservation of Living Environment”, “(modified) City Planning Law”, and the “Act on the Improvement and Vitalization in City Center” came out. The “Law concerning the Measures by Large-Scale Retail Stores for Preservation of Living Environment” replaced the “Big Store Law”, maintaining the living environment surrounding big stores (examination of noise preventive measure and parking lot capacity, etc.). “(modified) City Planning Law” enables municipalities to decide the category/purpose of “Special Use District”. Finally, the “Act on the Improvement and Vitalization in City Center” is a law to promote downtown improvement and commercial activation as one. These tried activation of downtown areas, meanwhile, more and more large stores were being built in suburbs. There was a dilemma of aiming for downtown activation despite the suburban construction of large stores. Therefore, it was not a great success.

In the 1990s, the Small and Medium Enterprise Basic Law was modified. In the fall of 1997, “Finance system anxiety” such as credit crunch or bad debt grew and problems of policy response to SMEs were revealed. Triggered by a clear statement to modify the Basic Law by the then-MITI minister in April, 1998, “SME policies Study Group” was started as a private study group of Small and Medium Enterprise Agency Director in July, 1998. Responding the

report of this group, the Basic Policy Examination Small Committee was held under the Small and Medium Enterprise Policy Advisory Council in May, 1999. The modified Small and Medium Enterprise Basic Law was implemented in December, 1999⁷⁾.

This New Basic Law is a modification of the Basic Law, however, it was also called a “Fundamental conversion from the Old Basic Law”. Then, how did it make a “conversion” ? The point is summarized as the following three; First was conversion of views on SMEs. In the initial Small and Medium Enterprise Basic Law established in 1963 (hereinafter referred to as the Old Basic Law), SMEs were positioned as the bottom line of double structure (problematic SME falling into low salary/low productivity). However, in the New Basic Law, SMEs were positioned as entities who could play an active role in national economy (“in charge of creating new industry”, “in charge of increasing employment opportunity”, “in charge of market competition” and “in charge of local economy activation”, etc.). In other words, it was a conversion of views on SMEs from “problematic SME view” to “positive SME view”. Second was conversion of policy goals. Generally speaking, there are two goals in a policy, the goal to be ultimately achieved and the specific goal required of achieving the ultimate goal (KUROSE [2006]). In the Old Basic Law, the ultimate goal was industrial structure improvement and international competitiveness reinforcement, and the concrete goal was productivity “gap” correction between SMEs and big enterprises. However, in the New Basic Law, the ultimate goal was maintenance and reinforcement of economic energy such as new industry creation, and the concrete goal was growth/development of independent SME managers (self help effort). Third was conversion of policy method. In the Old Basic Law, between the modernization measure (SME advancement) and disadvantage corrective

measure (disadvantage correction in business activity), emphasis was put in the former. In the New Basic Law, however, A: business innovation / start-ups / creative business promotion, B: management foundation reinforcement / smoothing fund supply (complementary measures for management resources lacking in SMEs, for example, cooperation and accumulation assistance, etc.), C: Smooth response for management environment change (protective assistance by improving safety net for SME which became unstable or failed competition due to the large scale movement in the market) were developed specifically. Now, the New Basic Law has contents which totally differ from those of the Old Basic Law⁸⁾. Forth is shifting role of local governments. Article 4 of the *Small and Medium Enterprise Basic Law* (Former *Basic Law*) that was enacted in 1963 gives reference to local governments. It states, "Local public entities must strive to devise policies that are in accordance with the national policy." In other words, it was a general procedure for local governments to develop SME assistance policies in accordance with the national policies. However, the *Small and Medium Enterprise Basic Law* that was revised in 1999 (*New Basic Law*) had the wording changed to, "Local public entities will conform to the basic principle (of the *New Basic Law*) and have the responsibility to devise and implement policies for SMEs that are suited to the natural and social condition of each locality by sharing roles as appropriate with the national government. This meant that local governments were given greater roles in implementing SME policies, resulting in the development of SME policies that are unique to each prefecture and municipality throughout Japan. A typical example is the Basic Ordinance pertaining to the promotion of SMEs. A number of prefectures as well as cities and towns throughout Japan are actively engaged in devising Basic Ordinances⁹⁾.

The modified SME measures have the

following three major characteristics; First is reinforcement of the safety net measure. Second is developmental integration of three assistance laws. The "Law on Supporting Business Innovation of Small and Medium Enterprises", the "Temporary Law Concerning Measures for the Promotion of the Creative Business Activities of Small and Medium Enterprises" and the "New Business Creation Promotion Law" were developmentally integrated and the "Act on temporary Measures for the Promotion of Creative Business Activities of Small and Medium-sized Enterprises" (April, 2005) was established. With this, the three assistance laws were systematized as "business creation", "management innovation" and "new business" and the showcase of the policies was "new cooperation". The support system to create new business was reinforced further. Third is "expansion (competition policy disadvantage correction)", "modification reinforcement (enlargement of the applicable range)" and "executive force reinforcement (public announcement of violation detail, naming of violating company)" of the "Subcontract Payment Law". However, we have to say the effect is rather limited.

Furthermore, the "Law to Promote Active Use of Local Resources by Small and Medium Enterprise" was established in June, 2007. This law is "aiming at promoting business activities of SMEs in local communities by assisting SME's business activities utilizing local industrial resources, and contributing to healthy development of the national economy through local economy activation". The basic principles set by SMEs are applied for approval by Regional Bureaus of Economy, Trade and Industry via prefectures after approval by prefectures as a basic scheme. SMEs can receive grants, reduced taxation for facility investment, etc. Its feature is, as in the case with new cooperation, experts called coordinators offer in depth assistance for setting business

plan and industrialization/commercialization.

IV. Conclusion

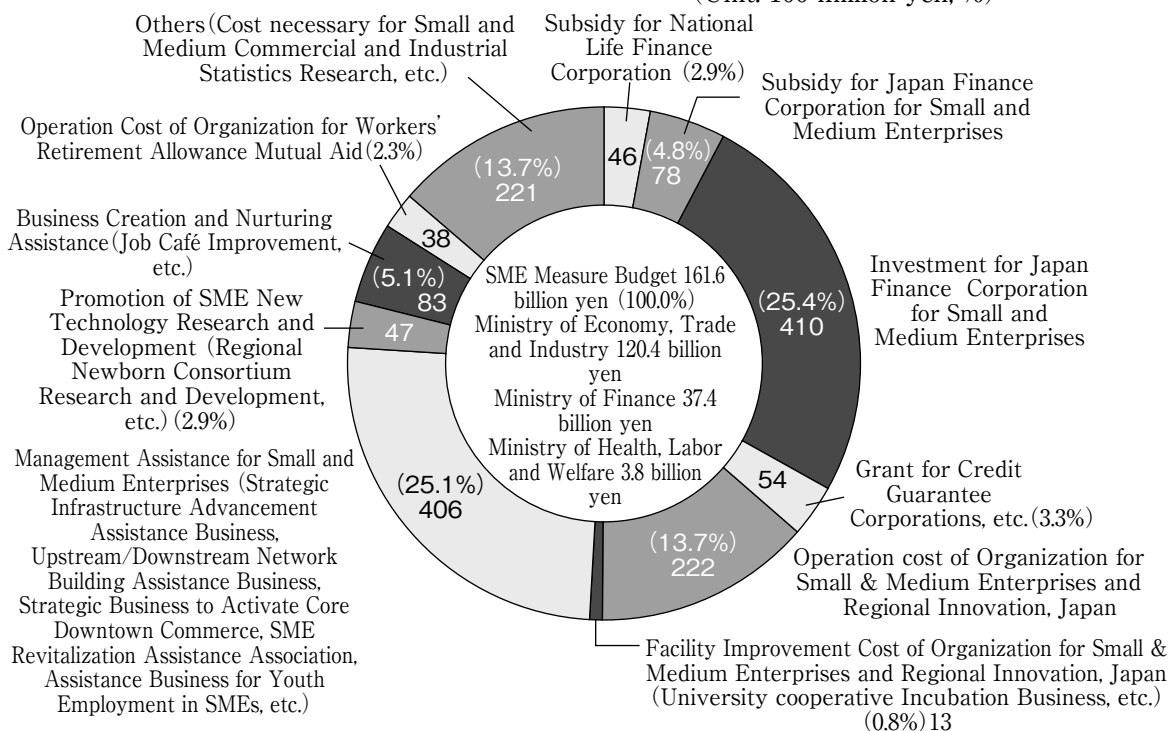
Finally, let us consider the tasks for the future policy development. First, we can say that the modified Small and Medium Enterprise Basic Law (New Basic Law) can be evaluated in that it assertively evaluated the role of SMEs fit for modern economic society. Specifically, the New Basic Law puts the ultimate purpose of the policy in assisting maintenance/reinforcement of economic forces such as creating new industry, and its specific purpose lies in assisting diverse development of independent SMEs as well as start-ups / new business and business innovation by individual SME to achieve such development. Until then, the role which SMEs could play must have been recognized, but there was no clear statement in the Basic Law. Second, individuality of SMEs was given serious consideration. The SME as a target of policies was grasped only as "group", and it was not assistance for the "individual" enterprise. Originally, SMEs are heterogeneous and pluralistic. Each enterprise has its own individuality. It is considered that this point was recognized again together with the modification of Basic Law. In fact, a number of names of individual SMEs are dispatched from administration, sink tank, and researchers, etc. It is expected that dispatching individual company names will lead to improvement of the brand of SMEs. Third, the New Basic Law emphasizes the point where SMEs are rooted in the local communities. Thus planning local community-led SME measures has become possible. As will be explained later, the movement of establishing basic regulation concerning SME promotion is accelerated all over Japan. Regarding SME measures by local government, some problems are pointed out concerning assistance plan making, measuring the effect of measures as well as the original role

of local governments (KUWAHARA [2006]), however, the prosperity of local SMEs is directly connected with the prosperity of the local community. As for the change in the role of local government, it is better to consider that planning measures while making the best of this opportunity has become "available" rather than to think local governments "must" deal with SME measures.

However there are several problems with the New Basic Law. First, the phrase "disadvantage correction" is missing while it was clearly stated in the Old Basic Law, and correcting disadvantage for SMEs is impossible. Of course we should carefully discuss what the meaning of "disadvantage" is in this case and how "correction" should be conducted. Still, it is also true that there are many disadvantaged conditions in the economic/social environment where SMEs are put compared with those of big enterprises, such as subcontract issues and various gaps, and there are problems remaining. Second, policies putting emphasis on big enterprises are developed. As long as the Small and Medium Enterprise Agency is an outsider agency of METI, SME policies and measures cannot escape from METI industrial policies. It is desirable that not only METI policies but also other various policies/measures established by Ministry of Agriculture, Forestry and Fisheries and Ministry of Land, Infrastructure, Transport and Tourism should consider the potential impact on SMEs as much as possible while formulating the policies. Third, SME measures budget (initial budget) has been reduced since the 1980s due to the deteriorating financial situation of Japan. The SME measures budget reached its peak in the early 1980s and then went from approx. 250 billion yen to as little as approx. 120 billion yen in FY2006 (reduced by approx. 100 billion yen since FY2005). Furthermore, 120 billion yen takes only 15.3% of METI general budget (by the way, SME measures budget is divided among METI, MOF,

Figure Breakdown of SME measures budget in FY2006

(Unit: 100 million yen, %)



Reference: "Finance" 2006 February issue

and Ministry of Health, Labor and Welfare, and METI has the largest share of the initial budget.) It was 1,150 billion yen in FY1998 when a large modification was done, taking only approx. 1.2% of national general budget (KUWAHARA [2006]). The limited budget is divided for the diverse and very rich assistance menu which we have seen, therefore, a budget of individual measures is restricted (Figure). What should we think about this? There are problems remaining.

"Modification" of Small and Medium Enterprise Basic Law is worth to be valued to a certain extent. Especially local community-led SME policies and measures deserve attention. However, there is a still the question if SME policies and measures are truly "policies for SMEs". The menu is diverse, but the content is

complex. How is it for the users, i.e., SMEs? What should be done to truly convert SME policies to "policies for SMEs"? There are essential questions unanswered.

Notes

- * This paper is based on a teaching material that I used in the Seminar on Small and Medium Enterprise Development Policies, on 6 June 2008. This Paper was translated into English by JICA (Japan International Cooperation Agency).
- 1) By hearing from a person in charge in Tohoku Bureau of Economy, Trade and Industry on May 30, 2007
- 2) Description of this section is based largely on KUROSE [2006].
- 3) Refer to SEKI [2002] for Double Structure.
- 4) Some said if there was any contradiction in simultaneously proceed improving law to secure

Oct. 2008

What are the SME Policies and Measures in Japan?

- “new industrial system” (big enterprise nurture law) and establishing Small and Medium Enterprise Basic Law (SME nurture law). MITI Minister Hajime Fukuda pointed out in his respond in the Diet that “there are vertical divisions and horizontal divisions in the industries ………. Specific Industries Promotion Law is for measures from vertical viewpoint while Small and Medium Enterprise Basic Law tries to nurture lower part of horizontal division……… (both) do not contradict” (partial omission made).
- 5) Based on the Organization for Small & Medium Enterprise and Regional Innovation Law promulgated in December, 2002, Japan Small and Medium Enterprise Corporation (excluding credit insurance business) merged with Japan Regional Development Corporation (excluding regional urban development innovation business) and Industrial Structure Improvement Fund and formed “Organization for Small & Medium Enterprises and Regional Innovation, Japan” on July 1, 2004. (<http://www.smrj.go.jp/kikou/index.html>) (Viewed in March 2008)
 - 6) For specific assistance detail, refer to, http://www.kanto.meti.go.jp/seisaku/sangyorich/index_chiikisangyosyuseki.html#1 (viewed in May 2008). Act on Temporary Measures for Activation of Specific Regional Industrial Agglomerations system.
 - 7) In the end, it was modified in 1999. Reviewing SME policies was deliberated in October, 1992, looking back the 30 years after SME Basic Law was established. But only mid-term report was made at this point. MITI did not clarify the process why modification was not achieved. (OBAYASHI [2003] p.50).
 - 8) What was the modified Small and Medium Enterprise Basic Law (New Basic Law)? The Act on Special Measures for Industrial Revitalization (“Industrial Revitalization Law”) was decided on by the Cabinet in July, 1999, coincidentally when modification of the Small and Medium Enterprise Basic Law was deliberated. This idea looked for a solution model for Japanese economic recession after the collapse of Bubble Economy, in the American Economy Revitalization in the 1990s, where the key was promoting “selection and intensification” of big enterprises whose main method was M&A, i.e, thorough restructuring and use of outsourcing. With “selection and

intensification” of big enterprises, it was inevitable for mass unemployment of workers to be born. Where would the huge amount of excessive labor force be absorbed? It was the “start-ups” and “business innovation” of existing SME, to deal with this unemployment, and the modification of Basic Law was expected to play such a role (KUROSE [2006]).

- 9) Refer to URITA [2007] for detail.

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